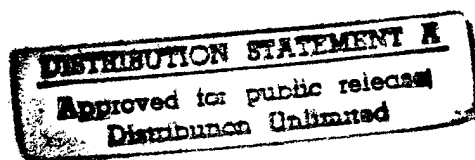


JPRS-CAR-87-027 278047
30 JULY 1987



**FOREIGN
BROADCAST
INFORMATION
SERVICE**

JPRS Report



China

DTIC QUALITY INSPECTED 2

19980211 089

REPRODUCED BY
U.S. DEPARTMENT OF COMMERCE
NATIONAL TECHNICAL
INFORMATION SERVICE
SPRINGFIELD, VA 22161

10
114
A06

30 JULY 1987

CHINA

CONTENTS

INTERNATIONAL

UNITED STATES

- RENMIN RIBAO on U.S. Senate's Panama Resolution
(Qi Yi; RENMIN RIBAO, 4 Jul 87) 1

NORTHEAST ASIA

- Japan's Yano Interviewed on Defense Spending Issue
(Beijing in Japanese to Japan, 8 Jun 87) 2

POLITICAL

- Biographical Information on Fang Lizhi
(Wu Guosheng; ZIRAN BIANZHENGFA TONGXUN, No 6, Dec 86) 4

ECONOMIC

NATIONAL AFFAIRS, POLICY

- LIAOWANG Discusses Reform of Urban Organs
(Dong Ruisheng; LIAOWANG, No 25, 22 Jun 87) 19

- Implementation of Further Price Reforms Explored
(Zhang Zhuoyuan, et al.; JINGJI YANJIU, No 4, 20 Apr 87) 22

- New Method of Asset Depreciation Calculation
(Wang Yanping; CHINA DAILY, 29 Jun 87) 33

Briefs		
May Retail Sales		35
PROVINCIAL		
Doje Cering on Tourism, Education, Structural Reforms (Xizang Regional Service, 28 Jun 87)		36
Gansu Meeting Calls for More Propaganda for Reforms (Gansu Provincial Service, 18 Jun 87)		38
Democratic Party Figures Briefed on Economic Situation (Sichuan Provincial Service, 19 Jun 87)		40
FINANCE, BANKING		
Treasury Note Discounting Explained (Huang Yiqing; ZHONGGUO JINRONG, No 4, 4 Apr 87)		41
Shijiazhuang's Thriving Trust, Investment Company (Qu Haifang; HEBEI RIBAO, 7 May 87)		44
FOREIGN TRADE, INVESTMENT		
Zhu Rongji Addresses Management Seminar in Tianjin (XINHUA, 2 Jul 87)		46
Investment Climate Analyzed (Li Boxi; JISHU JINGJI YU GUANLI YANJIU, No 1, 1987)		47
BOC Changchun Branch Helps Enterprises Earn Foreign Exchange (ZHONGGUO JINRONG, No 3, 4 Mar 87)		58
Tariff Charges Adjusted on 12 Commodities (XINHUA, 6 Jul 87)		61
Expert on Policy on Foreign-Funded Enterprises (XINHUA, 5 Jul 87)		62
Improving Quality of Textile Exports Urged (Li Shi; GUOJI MAOYI WENTI, No 2, 1987)		63
Briefs		
Export of Electronics		64
ECONOMIC ZONES		
Population of 14 Open Coastal Cities Listed (XINHUA, 6 Jul 87)		65

LABOR

- Doubts About Popularization of Labor Contract System
(Xu Haibo; ZHONGQINGNIAN JINGJI LUNTAN, No 1, 10 Jan 87) 66
- Labor of Contract Workers Should Not Be Treated as Commodity
(Liu Xue; JINGJIXUE ZHOUBAO, 15 Feb 87) 70

AGRICULTURE

- Paper Asks Peasants To Have Faith in Reform
(XINHUA RIBAO, 14 Jun 87) 72
- Progress Reported in Checking Soil Erosion
(Chen Guanfeng; CHINA DAILY, 30 Jun 87) 75
- Northern Plain Now Yields Various Crops
(XINHUA, 7 Jul 87) 77
- Balancing Grain Production, Economic Diversification
(Yin Chengji, Jiang Ruibin; JINGJI RIBAO, 14 Mar 87) 79
- Most Farm Machinery Now Privately Owned
(XINHUA, 11 Jul 87) 83
- Higher Production in Agriculture, Animal Products
(XINHUA, 12 Jul 87) 85
- Rural Productive Assets Double in Past 8 Years
(XINHUA, 6 Jul 87) 86
- JINGJI RIBAO Examines Wenzhou's Household Economy
(Li Yunhe; JINGJI RIBAO, 18 Jun 87) 87
- NONGMIN RIBAO Dialogue on Get-Rich-First Policy
(NONGMIN RIBAO, 22 Jun 87) 89

MILITARY, PUBLIC SECURITY

- Mechanization Generates Management Problems in Tank Division
(Zhou Xinjiang; JIEFANGJUN BAO, 7 Mar 87) 93
- Logistics Automation Computer Integration, Compatibility
(Chen Xingeng; JIEFANGJUN BAO, 19 Mar 87) 95
- National Defense Economic Research Group Established
(Jian Ni; JIEFANGJUN BAO, 5 Mar 87) 97
- Four National Defense Colleges Described
(BINGQI ZHISHI, No 2, 15 May 87) 98

2d Artillery Engineering College, by Zhang Zhiying	98
Air Force Political College, by Sun Peixian	99
Air Force Antiaircraft Artillery College	100
Dalian Surface Ship College, by Di Anbang	100

REGIONAL

NORTHWEST REGION

Gansu Radio Comments on Reform, 'Two Basic Points' (Gansu Provincial Service, 28 Jun 87)	104
Gansu Governor Promotes Reform (Gansu Provincial Service, 21 Jun 87)	105
Xinjiang Construction Corps Leader Stresses Reforms (Xinjiang Regional Service, 21 Jun 87)	106

HONG KONG, MACAO

Zhou Nan Explains Declaration on Macao Issue (XINHUA Domestic Service, 18 Jun 87)	107
--	-----

/9987

UNITED STATES

INTERNATIONAL

RENMIN RIBAO ON U.S. SENATE'S PANAMA RESOLUTION

HK061127 Beijing RENMIN RIBAO in Chinese 4 Jul 87 p 6

["Jottings" by Qi Yi (7871 0122): "The Consequences They Deserved"]

[Text] The U.S. Senate recently passed a resolution demanding that the Panamanian Government lift the state of emergency and remove its minister of national defense from office, and so on. This roused the strong resentment of the Panamanian people. Later the Panamanian Legislative Assembly unanimously decided to lift the state of emergency, so that "the people may exhibit their disdainful rejection of the U.S. 'evil plot'." On the very next day, demonstrations took place in Panama against U.S. interference in Panamanian domestic affairs.

The United States lodged a protest against this. However, it is the United States itself that gave rise to the anti-U.S. storm in Panama. The political rights or wrongs in Panama's homeland are its internal affairs; no foreign country whatever has the right to interfere. The present-day national independence movement in Latin America has compelled the United States to alter its past policy. However, the United States is so used to its insufferable arrogance in dealing with Latin American countries that it is rather difficult for it to change its bad habit. This is to say nothing of its building a country within a country in Panama--the Canal Zone, which the United States regards as its own exclusive domain. The decision of the U.S. Senate on the self-styled "plea" for democracy in Panama smelled precisely of an undemocratic breath. Is not Panamanian resentment over this very natural? Some U.S. politicians are fond of hoisting the banner of democracy and freedom, posing as the only ones designated to impose "political sanctions" and "moral judgments" on the affairs of other countries. Should such a mentality remain unchanged, it is inevitable that they will something foolish in tampering with the domestic affairs of other countries and arousing their resentment. They have failed to see that great changes have taken place in the way things are in the world, and it will be extremely difficult for them to demand utter obedience from others. That was why they went all out to impose "sanctions" on the domestic affairs of other countries in the hall of the U.S. Congress, where such words could rouse responses, to satisfy their desire to dominate everyone. Such a practice can be described as discussing an improper topic in an improper place, and the consequences are self-evident.

/9599

CSO: 4005/827

JAPAN'S YANO INTERVIEWED ON DEFENSE SPENDING ISSUE

OW091028 Beijing in Japanese to Japan 0930 GMT 8 Jun 87

[Excerpt] Junya Yano, chairman Japan's Komeito Party, arrived in China for a visit on 1 June on a tight schedule that included talks with Deng Xiaoping and other Chinese leaders. Prior to leaving Beijing, Mr Yano granted an interview to a Beijing Radio reporter. Today we will broadcast part of the interview dealing with defense spending exceeding 1 percent of the GNP.

[Begin Yano recording] The issue of defense spending is basically a domestic problem of Japan, an internal affair. However, because Japan caused great trouble for Chinese in the past, the Chinese as well as the peoples of other neighboring countries naturally do not want Japan to become a military power. It is only natural that they should be extremely wary of Japan's becoming a military power. Komeito's policy demands that the tragic history of wars should never be repeated and that Japan should never become a military power. In pursuing domestic politics in Japan, Komeito has resolutely opposed the request to exceed 1-percent-of-the GNP.

We based our opposition on the Japanese people's trust of and support for the Self-Defense Forces because they believe that this ceiling will not increase the Self-Defense Forces, and they think they can trust the Self-Defense Forces at this size. In other words, the 1-percent-of-the GNP ceiling has served as a foundation for their appraisal and trust. And from the viewpoints of the neighboring countries, including China, if defense spending is limited to within the one percent of the GNP, Japan will not become a military power. In other words, this ceiling has served as proof that Japan is a piece-oriented country. It is not merely a mental [words indistinct] proof but a very concrete proof. And I think it is proof that can be given to the Japanese people and neighboring countries as well.

Now this ceiling has been removed. But it does not follow that Japan's defense force will be strengthened by twofold or threefold. Though the defense force will not increase, we oppose removal of the ceiling because if it should become customary, the defense force would gradually be strengthened.

In this connection, His Excellency Deng Xiaoping pointed out yesterday that because Japan has such a large defense force and because Japan's GNP itself is so huge, it is not necessary [to remove the ceiling] and that the neighboring countries feel the same. His argument corresponds with our objective. In

Japan, our people are also resolutely opposed to Japan possessing large military forces by increasing the defense spending over the 1-percent-of-the-GNP ceiling. The Komeito regards its self-defense forces necessary to defend our own country but we think it is unnecessary to have military forces capable of attacking other countries. Based on this position, we would like to continue our struggle in the future. [end recording]

/8309

CSO: 4105/117

BIOGRAPHICAL INFORMATION ON FANG LIZHI

Beijing ZIRAN BIANZHENGFA TONGXUN [JOURNAL OF THE DIALECTICS OF NATURE]
in Chinese No 6, Dec 86 pp 51-62

[Article by Wu Guosheng [0702 0948 4141], Department of Philosophy, Beijing University: "Fang Lizhi--The Republic Needs Scholars Like Him"]

[Excerpts] It happened in the morning of 27 February 1955, when the first congress of the Youth League of Beijing University was in progress in the auditorium of the Administration Building of Beijing University according to prearranged procedure, and when the secretary of the general Youth League Branch of the Physics Department was on the rostrum delivering a speech. When he just started in his work report to refer to the achievements that the Youth League should aim at in nurturing ideals among youths, a youth of still rather childlike appearance suddenly stood up west of where the delegates were seated; all we saw was that he rushed up to the rostrum, waved to indicate that he wanted to make an impromptu speech, and then with the typical impetuosity of youth spoke out, picking up the thread of the secretary's speech. He said, our Youth League congress should first of all discuss the question: What kind of people are we being nurtured to be? Are we to become gentle and docile, well-behaved, and well-disciplined of manner, bookworms who say only what others have said before, or are we to become revolutionary specialists with aspirations, loyal to our motherland, and with creative spirit? Apart from attaining the level-5 marks of good students, are we not also to improve our capability for independent thinking?

This proposition, so extremely rare in the 1950's and also so extremely perceptive, upset the prearranged procedure of the meeting, turned the sentiments of the participants from shocked consternation to approval, and later became the topic of a lively discussion.

More than 30 years have elapsed since then, but our rapidly changing society is again looking for the ideal moral qualities suited to the new era. However, the question raised by the 19-year-old university student in those days, "what kind of people are we being nurtured to be," has been answered by the ideals he himself pursued and by the actual facts of his life.

His name is Fang Lizhi; in 1952, he entered the department of physics of Beijing University and is now vice president and professor of China Science and Technology University and among the youngest members in the academic Departments of the Chinese Academy of Sciences.

Growing Up Under Adverse Circumstances

Fang Lizhi was born February 1936 to a poor family living in Lili Lane in the western district of Beijing. At age 2, his mother began to teach him to read characters and count. He was by nature a clever child who developed quickly. When he was 4 1/2 years old, his mother asked someone to get him into the primary school attached to Beijing Normal University, where this child, not even able to dress himself, began his studies. Because he was sincere, kind, well-behaved, clever, and a good student, teachers quickly became very fond of him, and his fellow students liked to make friends with him. Even after he had become a celebrity, he maintained most friendly relations with his colleagues, which undeniably shows a trait of his character. While at primary school, he also liked to stir up trouble and frequently was the cause of trouble. In his little heart, he was clear about what to love and what to hate, and whenever he hated something, he would frankly express his opinions. This candid and sincere, generous and kind natural temperament, and the trait of speaking out without mincing words, was always evident throughout his later life and work.

At age 10, in October 1946, Fang Lizhi entered the Fourth Beijing Middle School, the most highly reputed middle school in all of Beijing, but quite a few bus stops away from his home. Because of the poverty of his family, he had to walk to school every day. After breakfast, he would go off to school with two corn muffins and 5 cents his mother gave him to buy old bean curd as vegetable to go with the muffins. At that time Fang Lizhi had already become infatuated with radios, but his family was too poor to buy him radio components, so he secreted the 5 cents for the old bean curd until able to buy with the money whatever parts he needed to construct a radio. His mother once discovered him operating his radio and spanked him because she thought he must have stolen it. It is under such adverse conditions that Fang Lizhi began to nurture his ardor for the exploration of nature's mysteries.

By the time he reached 6th grade at the Fourth Middle School, Fang Lizhi had acquired a solid foundation in all fields of study. In his memoirs he said: "Middle school students are all very ambitious, and I was no different at that time. I took a deep interest in physics, but could find nothing of any interest in the classes of our teacher of Chinese." He made you feel that strong interest in physics does not make a good student, and that nothing else but 'shining' in Chinese would do. In composition classes, I was therefore also made to write poems and even short stories." (Footnote 1) (Fang Lizhi manuscript "Feelings on Teachers' Day" (1985)) Fang Lizhi's later writings, some quite fresh and lively, smooth and graceful, mild in tone and rather touching, had undoubtedly benefited from his early literary training.

In 1952, Fang Lizhi did exceedingly well in his entrance examination that enabled him to enroll in the physics department of Beijing University. At university, he was an outstanding student, showing great respect for his teachers, earnest in his studies, and of warmhearted assistance to fellow students; he was year after year adjudged outstanding student of his class. In the heat of summer, when everyone was dripping with sweat, he would be tucked away alone in the sultry glass-working room to make durable technical

measuring glasses. Or he would be in the library, trying with gritted teeth to solve a thousand difficult problems, sometimes so absorbed that he would forget food and sleep. After classes, he would either read all kinds of books, or discuss problems with others. No one who has had contact with him could forget his sharp intellect. Sharp intellect, search for truth, and firm reliance on facts are indeed the required inborn qualities of an excellent scientist. Fang Lizhi was richly endowed by nature, as he began his scientific career on the campus of Beijing University.

As Chinese society was still lacking in scientific spirit, it was unavoidable that a genuinely scientific temperament of this type would clash with his environment. The first instance actually happened in the scene described at the beginning of this article. In the afternoon of that day, the Youth League congress changed its procedure; it split into small groups to discuss the question "what kind of persons is our education to nurture." But on the following day, the university party committee stopped this, pointing out that the question "what kind of persons is our education to nurture" need not be discussed because party policy has clearly answered this question. All who had engaged in the lively discussion of that afternoon were criticized, and the editorial department of the college journal, which had reported on these discussions, published a self-criticism.

After graduating from Beijing University, he was assigned to work in the physics institute of the Chinese Academy of Sciences. Natural sciences were at that time still wrapped up in the swaddling clothes of politics, very weak on the one hand, but also incapable of free development. Among Fang's intimate friends there were some highly sensitive young men, and all strongly felt they were under some indescribable pressure. During that period, he often returned to his alma mater to talk of everything under the sun in the circle of young people. They all felt that there was now not enough scientific and democratic spirit, and that the party and the state should strongly promote and enliven an atmosphere of this nature. Just at that time, the party called on the people to bestir themselves and submit opinions to the party. This made Fang and his friends decide to write a letter to the Central Committee and express some of these ideas. But the letter was hardly drafted in outline, when the anti-Rightist struggle started. During that movement, all friends who had anything to do with the intended letter were labeled Rightists. Though Fang Lizhi was not forced to wear the "cap of shame" and was dealt with leniently, he was expelled from the party. This was the first "purgatory" that Fang Lizhi had to experience on his journey through life. He was the only one in this calamity who luckily escaped being "capped," but he did not get away altogether scot-free from all torment. When people, including his intimate girl friend, urged him to flee, he clearly answered: No!

The frequent treatment inflicted on Rightists or "quasi-Rightists" was their transfer for "reform through labor." His girl friend, Li Shuxian [2621 3219 8300], was sent to work at Mentougou in the outskirts of Beijing, but Fang Lizhi was sent to work in Zanhuan County in Hebei Province. The terrible living conditions there had an ill effect on the growth of the young scholar. It was only in 1961 that the two resolutely decided to set up their own little home in those stormy days.

Only people who have gone through a "purgatory" can understand the significance of that home. Reminiscing on the past, Fang Lizhi wrote in a letter to Li Shuxian: "In my youthful years, when I was not yet able to distinguish between friendship and love, I came across you. Life is like a smaller lake over a larger clear and unrippled lake surface. With freedom and self-confidence one can, if one wishes, move to whichever shore one fancies. My belief in life is that all must be fine and beautiful, all is naturally fine and beautiful, as long as one is fine and beautiful at the bottom of one's heart. Indeed, all is poetry: To you will go all my youthful warmhearted sentiment; to the great palace of wisdom will go all my youthful energy. Adversities of life have smashed into the joyous scheme of things. Those poems, apart from reminding what is worth remembering for a long time as pure beauty in a confused time, are in one's life significant merely as evidence of naive innocence. You made me understand that everything is done for human love, only by its presence is there that genuine and singular happiness, and this is not at all something that happens by itself, but needs to be given with all your soul!...I have said repeatedly, our little home has a boundless magic charm for me; it is the shelter my heart depends on, it is not merely a home, but the place of my creative vitality!.."

It is precisely in that year that Fang Lizhi's first work "Use of Modified Propagation Functions To Measure the Radius of Nuclear-Electric Charges" (Footnote 2) (Wang Yunran, WULI XUEBAO [JOURNAL OF PHYSICS] Vol 17 (1961) p 57) was stopped before it was even typeset, so that he was forced to publish it under a pseudonym, Wang Yunran [3769 0336 3544]. In 1963, the JOURNAL OF PHYSICS published two papers by Fang Lizhi in cooperation with others, reporting their research results of that period on the optical effects of ferromagnetic objects. In 1984, the JOURNAL OF PHYSICS published four papers written either by him alone or with others in the two fields of solid state physics and laser physics. At that time, laser physics was still a new field in China, and he was one of the first physicists studying laser physics, especially regarding the theory on the quantum of radiation width of excited rays and double photon processes in the field of nonlinear optics. His research results were regarded as significant by the older generation of physicists, such as Yan Jici [0917 3444 1964], Qian Linzhao [6929 5259 3564], and Li Yinyuan [2621 5593 6678]. In 1965, he published two papers on optical theories, and in 1986, he published two papers on solid state physics.

The scientific life of China's young scholars was excessively bound up with the political atmosphere of the republic. The "cultural revolution" brought paralysis to all scientific work. Fang Lizhi was seized as a Rightist, who had so far slipped through the net, and in June 1968, just at the time when his second son was born, he was sent into the "cowshed," from where he was "liberated" over 1 year later.

Anybody who had been labeled a Rightist would for decades have a lingering fear and be unable to shake off the abnormal mentality that "it is better to be Leftist than Rightist." But for Fang Lizhi this time's misfortune was truly a purgatory, from which he arose an even more steadfast person. He had become more clear-headed and sober-minded in recognizing the heavy load that lay on the shoulders of the intellectuals of his generation. He maintained

his former individual character and persisted, even more inflexibly, in his own ideals. Science was so bright a beacon for him that no shackles of this earthly world could hold back his deep yearning for it.

A Celebrity in International Physics Circles

On 7 May 1985, heartening news came from the other side of the great ocean, from the United States: the article "Is Red Shift Distribution of Quasi-Stellar Objects Evidence of Multiple Interconnected Cosmic Systems?" (Footnote 3) (Fang Lizhi et al., TIANWEN XUEBAO [JOURNAL OF ASTRONOMY] VOL 24 (1983) p 410) written by Fang Lizhi together with Sato Fumitaka of Kyoto University, Japan, won first prize from the International Gravitation Foundation. This is the highest international prize in this field, and the award shows that China's astrophysical research had reached an international level. But as we already know, Fang Lizhi originally did not study astrophysics.

Though he would range in his later research through the length and breadth of astrophysics, his entry into this field was perhaps purely accidental. After he had come out of the "cowshed," Fang Lizhi was transferred to do manual work at the Huainan Xiesan Mine in Anhui Province. When digging into the earth for primeval remains, he was temporarily sealed off from the noises of the outside world. In order not to completely neglect his own studies, Fang Lizhi would take up after work the only books he had at hand, books in foreign languages on the general relativity theory, and study them over and over. He simply could not help pondering the problems, and it is in this way perhaps that he began his studies of this particular field. That was at the beginning of the 1970's.

Precisely at the beginning of the 1970's, prospects for astrophysics were opening up widely. Internationally famous physicists, who are now in the forefront of astrophysical investigation and cosmology, may have also started at that time, shifting their research to this area in the early 1970's. There were good reasons for it. Since the 1960's of this century, a series of important discoveries were made in astrophysics: In 1963 the quasi-stellar objects were discovered, in 1965 cosmic background microwave radiation was discovered, in 1967 pulsars were discovered; all these newly discovered celestial objects and phenomena exerted an extremely strong impulse on the development of astrophysics. Fang Lizhi had a sharp eye for the importance of these new significant discoveries and resolutely devoted himself to this new field of science. Considering his life history, Fang Lizhi's action was not altogether accidental.

In the Spring of 1972, Fang Lizhi organized an astrophysics research group of mass character at the China Science and Technology University. At that time, the following members of the physics department joined the group at different times: Zhang Jialu [1728 1367 6986], You Junhan [1429 1498 3352], Zhou Youyuan [0719 0642 0337], Cheng Fuqin [4453 4395], Chu Yaoquan [5969 5069 3123], and Cheng Fuhua [4453 1381 5478]. In the course of time, they did a large amount of research, so that the astrophysics research group of the Science and Technology University became the most dynamic research group in all of China's physics endeavors.

In 1972, Fang Lizhi published his first paper in astrophysics: "Cosmological Interpretation of Inclusions and Black-Body Radiation in the Scalar-Tensor Theory," (Footnote 4) (Fang Lizhi, WU LI [PHYSICS] Vol 1 (1972) p 163) which is also the first Chinese scientific article on cosmology and indicates the beginning of modern cosmological research in China. But it was particularly this article which was to give Fang Lizhi endless trouble throughout his scientific life.

The study of cosmology was for a long time a forbidden zone in China. The first prohibition came from the Soviet Union. On 24 June 1947, Zhdanov, the leading ideologist in the CPSU Central Committee, proclaimed: The theory of a spatially finite but unbounded universe, put forward by Einstein and all his followers, provides new arguments for theology. Nobody in China, therefore, dared make inquiries into cosmology. Now that Fang Lizhi, identified as a "reactionary" and "Rightist who had slipped through the net," would dare defy universal opinion and assume the right to break into the forbidden zone, was something that simply could not be allowed.

The JOURNAL OF DIALECTICS OF NATURE, directly controlled by Yao Wenyuan [1202 2429 0337], simultaneously published two articles of criticism in its first issue in 1973, leading on and masterminding this persecution of the "new theology" against science. The critics were completely ignorant of modern cosmology but interpreted it without true understanding, made groundless accusations, and rudely vilified it by saying that "falsehoods and pseudo-science dominate research on the origin and evolution of stellar bodies," and that "cosmological theory is a flower that will bloom but will never produce a fruit." They judged the natural sciences from the height of their commanding positions, merely relying on wilful opinions of classic Marxist writings and recorded quotations of top Marxists, applying them in extended interpretations. They concluded: "The whole cosmos cannot be explained through mathematics or physics, but merely through philosophy. The so-called mathematical and physical interpretations of the cosmos are actually also philosophical interpretation but in the nature such of an apriorism of idealism." The article even heaps much abuse on cosmology, calling it "a scientific loincloth to cover one's shame," "political opium," and to be out "to certify that the capitalist system not only cannot be surpassed, but that it is also capable of limitless expansion."

Fang Lizhi was not discouraged. "I pursue science and believe in truth. Data and proof are things you cannot refute and cover up." It is only thanks to this kind of courage and insight, and the firm confidence in science, that modern cosmology could unyieldingly grow up in a China that presented so many obstacles to it.

In this perilous environment, Fang Lizhi continued to lead his group in the development of research. At an astronomy symposium in Beijing, June 1973, and again at an "Astrophysics Course for the Nanjing Area" in July 1975, organized by Nanjing University, Fang Lizhi reported his research results on the problem of the black hole, raising the possibility of the existence of a black hole according to actual observations, (Footnote 5) (Fang Lizhi, KEXUE TONGBAO [SCIENCE BULLETIN] Vol 19 (1974) p 49) and also computing the critical qualities of the black hole as obtained from different equations of state.

(Footnote 6) (Fang Lizhi et al., ZHONGGUO KEXUE JISHU DAXUE XUEBAO [JOURNAL OF THE CHINA UNIVERSITY OF SCIENCE AND TECHNOLOGY] Vol 3 (1973) p 45 (1); KEXUE TONGBAO Vol 19 (1974) p 49) In 1974, international astrophysics circles discovered a pulsar in the binary star system PSR 1913+16, which provided conditions for an examination of the existence of gravitational radiation, put forward in the general theory of relativity. Fang Lizhi at once pointed out that this radio pulsar in the binary star system is most likely composed of a binary compact. (Footnote 7) (Fang Lizhi, TIANWEN XUEBAO Vol 16 (1975) p 19) This assumption was later confirmed by observations.

In October 1975, the Shanghai JOURNAL OF DIALECTICS OF NATURE telephoned Fang, requesting a contribution, as it purported to publish differing opinions expressed in China on cosmological questions, trying to show a tolerant attitude toward controversy in science. Fang Lizhi's draft was entitled "The Red Shift Phenomenon of Extragalactic Stellar Bodies Is Recognizable." The article appeared in issue No 4 (1975) of the JOURNAL OF DIALECTICS OF NATURE, but Li Ke's [2621 2688] article "What Does the Red Shift Phenomenon Tell Us" was set in front in the list of contents in eye-catching black "xiao si hao" type, as against Fang's article which followed in "xiao si hao" Song typeface; the intention was very obvious. Fang Lizhi never paid attention to these overt and covert pressures.

The July 1976 issue of the JOURNAL OF PHYSICS published an article, entitled "A Tentative Discussion of the Inception and Development of Modern Cosmology," which again invited a storm of antagonism, being declared Rightist writings.

In August 1976, the All-China Astrophysics Conference opened in Hefei. At this conference, Fang Lizhi gave a report on the research achievements of his group in recent times. On the problem of compact stellar objects, they had developed a theory of observational demonstration of the black hole accretion. (Footnote 8) (Fang Lizhi et al., KEXUE TONGBAO Vol 19 (1974) p 561; Vol 20 (1975) p 465) Fang was the first to point out the important role played by electrons in the area of accretion and provided proof that there can be rapid cooling areas in the accretion basin. (Footnote 9) (Fang Lizhi et al., ZHONGGUO KEXUE [CHINESE SCIENCE] 1980, p 867) In researching the problem of quasi-stellar objects they used a method of luminosity indices to systematically study the red shift relation of the apparent magnitude of quasi-stellar objects and opened up a new field of research in the impenetrability of the cosmos, an important development in observational cosmology.

In the cosmological model of the thermal great explosion of the cosmos, the geometric characteristics of cosmic space-time is determined by two parameters: Hubble's constant H_0 and the deceleration factor q_0 . In this, $q_0 > 1/2$ and $q_0 < 1/2$ each determine the finiteness and infiniteness of the universe, but the q_0 value has not yet been well determined. Since 1976, Fang Lizhi and his group first employed a method of luminosity indices to analyze Hubble's diagrams. The q_0 obtained by using luminosity indices, which give the separation between electrons of the radio components of the quasi-stellar object, is always between 1 and 2. (Footnote 10) (Fang Lizhi et al., ZHONGGUO KEXUE JISHU DAXUE XUEBAO, Vol 6 (1976) p 78; TIANWEN XUEBAO Vol 18 (1977) p 113; Vol 18 (1977) p 239) In 1977, similar analyses started internationally

regarding Hubble's diagrams for quasi-stellar objects obtained a q_0 value that was almost the same as the one obtained by Fang Lizhi. The commentary in a foreign magazine was: "The evaluation of q_0 is only one of several results obtained by Fang Lizhi et al. Many astrophysicists may find their result that the optical luminosity of a quasar decreases by 2.3 magnitudes for every megaparsec increase in the linear separation between its radio components to be even more important." (Footnote 11) (NATURE Vol 270 (1977) p 206) In the course of determining the cosmic deceleration factor q_0 , people have discovered systematic errors in obtaining the q_0 value through different methods. By the average mass density method, the q_0 value is always smaller than $1/2$, and in the opposite case, when the method of the Hubble diagrams is used, the q_0 value is always larger than $1/2$. There are only three ways to explain this: 1) The evolution of quasi-stellar objects and galaxies makes the method of the Hubble diagrams erroneous; 2) Large amounts of invisible matter makes the average mass density method erroneous; 3) The standard cosmological models are erroneous.

Fang Lizhi was more inclined toward the second explanation, because he had discovered that the mass-luminosity ratio increases with the increase of the degree of R in the system, the curves of galactic rotation clearly deviate from the Kepler laws. (Footnote 12) (Fang Lizhi et al., WULI XUEBAO Vol 31 (1982) p 109) All this suggests that all astronomical systems contain a large amount of invisible matter. The static neutrino mass may, possibly sometime soon, without serving other sundry discoveries, directly support this conjecture, and, generate renewed interest in neutrino cosmology among astrophysicists. In the course of his studies of neutrino cosmology, Fang Lizhi discovered that the existence of a component of static masses of neutrinos in the cosmos is beneficial for uniformity in the degree of R formation of star galaxy groups, and on the other hand that the lack of uniformity of the neutrinos will not bring about an unevenness in the microwave background radiation. He furthermore obtained a very significant result, namely that in the apparent stellar objects there exists an obvious unevenness in the degree of R. The distribution of invisible masses is very likely very uniform, without any strong unevennesses. (Footnote 13) (Fang Lizhi et al., TIAN TI WULI XUEBAO [JOURNAL OF ASTROPHYSICS] Vol 1 (1981) p 291; KEXUE HANBAO [SCIENCE CORRESPONDENCE] Vol 27 (1982) p 201; ZHONGGUO KEXUE 1982 p 1006) Fang Lizhi also pointed out that these unevennesses may have come about by the earliest transitions in the cosmos. The abnormal dissipation at the time of transition is possibly one important cause for cosmic entropy. (Footnote 14) (Fang Lizhi et al., TIAN TI WULI XUEBAO 1 (1981) p 4; Vol 4 (1984) p 313; KEXUE TONGBAO Vol 29 (1984) p 721 and p 1440; ZHONGGUO KEXUE 1984 p 832 and 944)

Due to the fact that he "maintained all along the intense way of life of his student years" (said by Li Shuxian), and because he scientifically selected each single breakthrough point, up to the end of 1984, Fang Lizhi was able to publish over 130 scholarly articles during the last few years in first-rate scholarly publications in China and abroad, extending the scope of his research interests to every branch of stellar physics. This is most unique in Chinese scientific circles. With the growing profundity of his scientific research, his activities spread to across the national boundaries. In the Autumn of 1981, he attended the International Conference on Cosmology at the

Vatican as one of 25 internationally known cosmologists. In 1983, he became one of the 12 physicists of the academic commission of the International Physics Center. In 1983, he was invited to become chief editor of the ASTROPHYSICAL AND COSMOLOGICAL DEVELOPMENTS, a publication of international character. In 1984, he was chairman of the Relativity Astrophysics Conference held in Bogota. He was also appointed visiting professor of Rome University's physics department, senior research fellow at the Astronomy Institute of Cambridge University, and visiting research fellow of the Institute of Basic Physics of Kyoto University, Japan. In view of his scholarly achievements and international recognition, he was promoted, against usual rule, in September 1978 from instructor to professor, becoming the youngest professor in China in that year.

Since 1972, relativistic astrophysics has gradually become a discipline of considerable strength in China. Fang Lizhi's small group has also more and more attracted international attention by those in the same field. On his visit to China in the Spring of 1985, Hawkins, an internationally known astrophysicist and member of the Royal Society of Great Britain, wrote Fang Lizhi: "What I have seen in Hefei and the standards of your group made a deep impression on me. You have attained modern developmental levels in astronomy and cosmology." In November 1979, the China Society for Gravitation and Relativity Astrophysics was officially inaugurated, and Fang Lizhi was elected vice president. In November 1983, at the second congress of the society, Fang Lizhi was elected president. In his scientific life during the last 10-odd years, Fang Lizhi shared almost completely weal and woe with China's relativity astrophysics. No one can deny his extremely important contributions to the development of China's relativistic astrophysics. Due to the untiring efforts and struggles of Fang Lizhi and his colleagues, no one is anymore obstructed or attacked for his studies of modern cosmology. Natural sciences have regained the freedom they deserve, this perhaps is an even more significant achievement.

The Conscience of Chinese Society

As human society developed to this day, science defeated ignorance, democracy defeated despotism; these facts have become important symbols of social progress. The intellectuals, who represent the scientific and democratic spirit, are therefore the most discriminating judges of any irrational phenomena in current society. However, mental workers who merely plug along, using their specialized knowledge merely to make a living, do not deserve to be called intellectuals in that sense.

Intellectuals must be persons who earnestly pursue the truth in the special sphere of activities they have themselves chosen; they must not, merely for the sake of personal benefits, forsake the autonomy of science and the standards of objectivity. They must show deep concern for all problems of society in general and feel a high degree of responsibility for the important affairs of the nation and for human progress. They must be capable of sharp discernment when it comes to all kinds of shortcomings and irrational phenomena in society, and must also have the courage to vigorously attack such phenomena. At the same time, they must be fully sensitive to everything that is fine and gratifying, and must raise their voice loudly in the struggle for

people's democracy, for social justice, and for scientific truth. It is only for these reasons that we may call them "the conscience of human society."

In the history of Western civilization, we see a line of scholars who were like this, exerting themselves for social progress and human happiness. Einstein once aimed the following remark against those who wield great power but fear the scientific spirit: "Ask yourself, if Giordano Bruno, Spinoza, Voltaire and Humboldt would have thought and acted this way, what would our world be like?" (Footnote 15) ("The Works of Einstein," translated by Xu Liangying, Commercial Press, 1979, Vol 3, p 112) He himself set a shining example for all future scientists by the way he fulfilled his social responsibilities.

However, in China, despotic rule of feudalism for as long as 2,000 years has stifled independence and fighting spirit in most scholars. The traditional pragmatism has further contributed to the lack of initiative in Chinese scholarship. There still exists to this date, and extremely frequently so, this lack of consciousness of being master of one's affairs, and the willing acquiescence to serving merely as a tool, or this lack of interest in the affairs of the world, professing oneself to be aloof from all worldly affairs. Undoubtedly, this situation is one of the main reasons for today's low status of the intellectuals, and their being weak and easy to bully.

In his thoughts on human history and the current state of the world, Fang Lizhi came to feel deeply that the problem of the status and role of today's intellectuals is first of all not only a problem of the interests of the individual scholar, but an indication of the level of social progress. "China really lacks an awareness of knowledge or awareness of science, a concrete manifestation of which is the failure of the intellectuals to form a force with influence on society and on the overall situation." (Quoted from a speech at Beijing University) Our society must, therefore, on the one hand make it the ideology of its developmental strategy that awareness of knowledge must be strengthened and that the influence of intellectuals on policy decisions must be increased. The intellectuals, on the other hand, must themselves first step out onto the stage of history with an attitude of being true masters, exercising their own rights and interests and with concern for social problems.

In his way of thinking and in actual practice, Fang Lizhi followed this ideal.

To enable rapid progress in the natural sciences, the first thing is to ensure academic freedom. Fang Lizhi had a deep understanding of this point. His successes in scientific research were won in vigorous struggle for academic freedom. He was therefore determined that he would appeal to society for academic freedom, regardless of what the circumstances are.

In March of 1985, in a speech at Zhejiang University, Fang Lizhi pointed out that a university must be a center for free research and instruction. He said: "One special characteristic of parliamentary politics is the parliamentary procedure, with the members of parliament not being bound by legal restraints." "A university is an environment for the exploration of truth; universities are discoverers and explorers of nature and of the social

laws. They are, therefore, in this connection also permitted to raise questions without restraints of any kind as to past discoveries and past achievements. These are special characteristics that a university must possess." Even in the universities of Europe during the Middle Ages, when religion and theology were at the height of power, "those who studied theology could criticize, change, and develop theology." The European universities of those days were not restricted by religious dogma from outside of university circles, shouldn't this be even much more the case today? It must be the essential characteristic of a university that there is no new thought of any kind that cannot be lectured from its rostrum. The university must be a place from which new ideas emanate.

In 1984, Fang Lizhi was appointed vice president of the China Science and Technology University. At the ceremony on his assumption of office, professors and students asked him what he wants to achieve for the university. He replied: "I myself don't know what I can achieve because I don't know how much power I will have. Besides, even with power, there are things difficult to do. For instance, it would be difficult to allot houses and adjust salaries, but I know something that will cost absolutely no money, even though it is extremely important, and that is promoting ideological and academic freedom. This can be achieved if there is only strong determination. I will make it one of the policies of the university to promote ideological freedom." At a time when the word "freedom" was a strict taboo, it required great courage to publicly proclaim that ideological freedom shall become the policy of the university.

In China, the actual status of intellectuals has all along been extremely low. For a long time, discrimination against intellectuals has become deep-rooted in the social mentality. Fang Lizhi repeatedly pointed out in his lectures that in the present era, science is a most important productive force, and that the intellectuals are precisely the representatives of this new productive force. People who represent the most advanced productive force must be most revolutionary, must have the greatest influence on social development and the course of history, and their social status must, therefore, not be relegated to the "ninth category." But in reality, living conditions of the intellectuals are horrible to the extreme. On many occasions Fang Lizhi could not suppress his emotions when he called on the entire society to improve living conditions for the intellectuals.

In April 1985, when educational reforms were under discussion, some pointed out that it was urgently necessary to raise the student-teacher ratio in high schools. Fang Lizhi put forward his own differing opinion, namely that the crucial questions to ask are: "What is the reason for this irrational state of affairs? Can the ratio be increased by merely dismissing teachers?" In the article, in which he wrote this and which could not yet be published, Fang Lizhi, after first writing in deep-felt, moving terms about the suffering of the middle-aged intellectuals, he wrote with a heavy heart:

"I think what I am saying will not be misunderstood as if I oppose raising the student-teacher ratio in middle schools, or oppose the system of appointing teachers, or oppose using the presently available teaching force in new schools. I am completely in agreement with these reform ideas. What I wish

to emphasize is merely that precondition for the realization of these ideas is a distinct improvement in the living conditions and treatment of our present teachers, particularly the middle-aged teachers, and reducing their mortality rate. Ignoring this precondition while pursuing certain ratios would be dangerous and in most cases unfeasible. Even the "children's water buffalo" needs his feed, as you would otherwise not be able to squeeze out any milk but merely squeeze out its blood."

In August of 1985, to celebrate the first Teachers' Day in China, Fang Lizhi wrote on request an article in memory of his own elementary and middle school teachers. In this article he again touches on the living conditions of elementary and middle school teachers. He deplores that the teachers, who have nurtured so many talents, had still, despite all the clamor, merely "empty promises of adjustments" of salaries, and were left hoping amidst misery, while "our society, especially those policies that govern our current condition, are highly disrespectful of the work of teachers. Showing disrespect for teachers, even beating them up, etc., cannot be said to be unrelated with these policies." This article too could later not be published.

In the evening of 4 November 1985, Fang Lizhi gave a speech at the request of the student union of the radio department of Beijing University. His topic was "The Social Obligations of the Present Generation of Young Intellectuals." The speech showed that Fang Lizhi had attained a new height in his awareness of this problem. His speech, full of intense emotions, had the audience as if transported into a new world of great spiritual height.

Fang Lizhi said: "China formerly always expected its intellectuals to do some concrete work and to concern themselves less with social problems. Just pull the cart and don't worry about anything else. That is wrong. In the West, during the 40 years since the end of the war, the power of the intellectuals has been growing stronger and stronger, and they have gained more and more influence on social developments. For instance, in the environmental pollution crisis of the 1960's, in the energy crisis of the 1970's, and in the threat of war in the 1980's, it has always been the intellectuals who called on society and the governments to take note. Intellectuals have indeed fulfilled their social responsibilities."

"In the actual realities of China, there are also crises. We intellectuals must recognize these crises and, furthermore, must speak out. Education is in crisis. Though some will say that documents on educational reform have been published, and the newspapers have written about it extremely well and on a grand and spectacular scale, there has been no actual resolution of the problem. The critical point for a true solution of the problem is the amount of funds allocated to education, but the attention we are giving it is in the way of a mystique."

"In my opinion that part of the current salary policy that concerns the intellectuals is completely wrong. During the last 30 years of their labors, the intellectuals had their price tag reduced. The current treatment of China's intellectuals, whether you look at it vertically or horizontally, is always of the lowest. Vertically, we have gone down in price, with salaries

lower than those of men like professor Hu Buqing [5685 2975 7230]. Horizontally, we need not even compare with the developed countries, even among the developing countries around us, we are the lowest. Is this showing respect for intellectual concerns? A problem like this really demands voicing strong appeals, appeals to whoever is around, no matter whether useful or not. Some people always talk in superlative terms and end up saying: You intellectuals must understand the present situation; I feel I can't understand it! Only if the intellectuals will stand up and speak up in this way, will they get things moving in society."

"It is now often said that no one holds any ideals anymore and that discipline is in disarray. Why is that so? Mainly because some persons in leadership positions do not observe discipline and show no moral integrity, some even having degenerated to a state of rot. Everyone who in his later life will have contacts with society will find out that this rot is quite prevalent. To rectify discipline and work style, rectification has to start at the top. Bad social atmosphere and unhealthy tendencies in the party are the basic problem, especially the lack of integrity among some of the leading comrades themselves. It is here that we intellectuals must become effective; seeing these conditions, we must not allow them to continue. Some dare not speak out, but if everybody speaks out, there would be nothing they could do."

The whole auditorium was suffused with a solemn yet lighthearted atmosphere. Fang Lizhi's speech was repeatedly interrupted by enthusiastic applause. The young students were overwhelmed with boundless admiration for the moral quality of this famous physicist. One doctoral candidate sadly remarked: "I felt as if I were facing a huge mountain; in front of this genuine intellectual, I felt so utterly insignificant."

In his innumerable long and short speeches during the last few years, Fang Lizhi propagated his own social ideals and continued to follow with fervent interest the social changes that were taking place. He poignantly referred to problems that were arising in the transformation and emphasized that our policy decisions must be well quantified and founded on scientific data. He pointed out that past mistakes were due to the lack of quantitative considerations, when the state adjusted wages and in the the way foreign exchange reserves were used. In the light of his own understanding of economic developments abroad, he put forward constructive ideas for China's economic transformation. His merciless blows against social evils made ever deeper impressions among the public. On 17 April 1985, the RENMIN RIBAO on page 3 published an article, "The New Structure and High Benefits," which, completely contrary to actual facts, reported that at the Hefei United University was able "with the expenditure of only one-fifth of an ordinary university, to educate talents who in quality are close to those of any other ordinary university." Fang Lizhi immediately wrote the editor-in-chief of the RENMIN RIBAO, pointing out that "this kind of computation is of the kind practiced during the 'great leap forward,' when the production of 10 mu was taken as the production of 1 mu of land," and demanding that the writer of the said article visit the Hefei United University and clarify the facts. He earnestly pointed out: "Haven't we had a sufficient taste of the harm that can be inflicted upon society by such 'great leap forward' style of reporting?" During a speech at Zhejiang University, he sharply pointed to a new kind of

unhealthy trend that was just erupting at that time, namely that people would take advantage of the coexistence of planned and commodity economies to move about between these two "hot springs," have them "heat up the engine," and gain personal profits. This group of people who hold economic and political power will most likely be the next generation of bureaucrat-comprador capitalists. Fang Lizhi hoped that the new generation of university students, after entering society, will jointly face up to these dark sides of society, expose them, and eliminate them.

Fang Lizhi's detailed social and political "revelations" were something certain people found hard to tolerate. Because some people declared his speech at Zhejiang University to be heresy, to be driven from academia, some universities immediately responded by launching criticism against him, and some newspapers chimed in with them. Shortly after delivering a speech at Beijing University, some persons telephoned the party secretary at the China Science and Technology University, demanding that Fang Lizhi be investigated. When Princeton University in the United States invited him for a lecture tour at the end of 1985, a certain relevant department found an excuse to obstruct his punctual departure from China. However, times have changed, after all, the awakened people will definitely not allow the clock of history to be turned back. In the present storm, Fang Lizhi has in the end remained unscathed. In the Spring of 1986, the ban was lifted, and he went to the United States to lecture. Wherever he went during his lecture tour in the United States, he was enthusiastically welcomed by the local Chinese students and scholars, which fact gives some indication of the extent to which people support him.

He is a member of the CPC and is always maintaining a communist's upright and strong character and integrity, always seeking truth from facts. He is an intellectual who will never abandon, out of fear for his personal safety or for personal gain, the social obligations that an intellectual must fulfill. He has a large following of youths who adore him, and many admirers and supporters among the middle aged and old. At the time of the "elimination of spiritual pollution," although in a perilous position, he was still evaluated an excellent party member at the China Science and Technology University. All this gave him much strength. When some of his friends expressed fear for his person and urged him to be less outspoken, Fang Lizhi's reply was: "If it is a crime to talk like this, the list of my crimes has already reached saturation point long ago, and it will make no difference whether I say more or say less."

Remember what Einstein said at the memorial service for Madame Curie: "Even if only a small portion of European intellectuals would have the moral character and devotion of Madame Curie, Europe could look forward to a very bright future." Can we now say similarly: If only China's intellectuals would all be like Fang Lizhi, courageously and accurately perceive their own social responsibility, show concern for social problems, show concern for the status and destiny of intellectuals, show concern for the propagation of science and truth, then the Chinese nation's scientific progress would be greatly accelerated and the status of China's intellectuals would be greatly elevated.

The time when it was proclaimed that "more knowledge means more reactionary element" has passed never to return. Today, people are generally aware of the importance of scholars for the construction and development of the republic. However, the question what kind of scholars are needed in the republic is still a question worth some thought.

Are there not still people who say "the scholar is to be useful to his friends"? Are there not still people who take delight in talking about the mythical horse expert Bolo and that he had discovered a horse that can cover a thousand li a day? As long as the intellectuals will submissively work as tools and create innumerable items of material wealth, these people will agree that "the republic needs scholars." However, they will definitely feel highly uncomfortable with scholars who dare to be independent thinkers, propound unorthodox ideas, dare assume their own social obligations, frankly speak out about the evils of their time, and who are also brilliant in their academic fields and very famous for their achievements..

Let me write down the sincere and heartfelt aspiration of all good, honest, and upright people: The republic needs scholars like Fang Lizhi.

(The above article has had enthusiastic support and assistance from Li Shuxian, wife of professor Fang Lizhi. Professor Li provided many manuscripts and private letters and despite many claims on his time reviewed the whole text. Mr. Xu Liangying [6079 5328 5391] also gave much support and assistance. Herewith my sincere thanks to all of them.)

9808

CSO: 4005/555

LIAOWANG DISCUSSES REFORM OF URBAN ORGANS

HK060931 Beijing LIAOWANG in Chinese No 25, 22 Jun 87 p 7

[Article by Dong Ruisheng [5516 3843 3932]: "The Core of Reforming Urban Organs Is To Change Their Functions"]

[Excerpts] The reform of urban organs is a task facing organs of power at all levels throughout the country. How should the reform be carried out? The experience gained by 16 medium-sized cities from their reform experiment on urban organs indicates that the orientation of the reform of urban organs is to pay close attention to changing government functions, to carry out the reform of enterprises more profoundly, to simplify specialized administrative and managerial departments, to reduce the intermediate managerial structure, to get rid of "obstructions at the intermediate level" to allow enterprises to become comparatively independent commodity producers and dealers, and to strengthen the management of departments in charge of summing up, supervising, and regulating the economy.

Economic structural reform has proceeded in an increasingly profound manner over the past few years. But the integration of government administration with enterprise management and that of party leadership with government administration have seriously affected the work of simplifying administration and delegating powers to the lower levels. The separation of departments from regions has hampered the development of large-scale socialized production. Excessive centralization of powers is detrimental to exploiting the initiative of the cadres and masses at the grassroots level. All this shows that the existing economic management organs and their functions are far from being able to cope with the needs for developing the socialist commodity economy. Therefore, changing government functions and reforming government organs have become more and more important problems for us to resolve.

Taking reviving the vitality of the party and the state, overcoming bureaucracy, improving work efficiency, and exploiting the initiative of grassroots units and the people as their reform targets and proceeding from economic management departments, these cities have worked out an overall reform program and boldly carried out explorations. Over the past year, they have summed up a whole set of workable methods:

1. They attach importance to the work of changing concepts in the whole process of reforms.
2. They devote their major efforts to changing the functions of various departments and enterprises.
3. They pay attention to carrying out a whole set of reforms.
4. They make proper arrangements for the work of cadres in excess of the authorized establishment.
5. The higher authorities should actively support the reform of urban organs.

These cities are facing the following prominent problems in their reform experiments: Although the departments in charge of specialized units have been abolished, the higher authorities are still applying the old management methods, and this has affected the channels of convergence; comprehensive management departments do not have a very clear idea about how to exercise the management of trades and undertakings; and a study has yet to be made on how urban party and government organs should be formed and should carry out division of work and on how party and government cadres should exercise scientific management. These problems suggest that the reform of urban organs is being carried out in the course of the replacement of the old system by the new one. In particular, they indicate that the reform is in a period characterized by the fact that "the part is changing while the entity still remains unchanged" and that "an intermediate breakthrough has taken place while the higher authorities and the lower levels still remain unmoved." As the reform involves changes in responsibility, rights, and interests as well as changes in personnel, it is naturally very difficult. But we should understand that following the progress in economic and political structural reforms, a fundamental change has taken place in the economic policies and management carried out by the central authorities, localities, and enterprises. A major change has also been witnessed in government management over plans, materials, and finances. Contradictions and conflicts between the new and old systems have challenged the original organs in varying degrees. A "major climate" is taking shape for the reform of organs throughout the country, and the external environment for urban reform experiments is gradually improving. We should also understand that the reform of organs in the present period is of a transitional nature. "It is impossible to change people's ideas and minds, or to make the reform of organs a success, or to fix definitely the number of personnel in an organ, or to explicitly define the functions of new organs at one go, and it is impossible to bring about indirect government management at one go." Therefore we should be good at resolving the difficulties in changing government functions in the course of the replacement of the old system by the new one and at giving training to cadres so that they can adapt their knowledge to new management and functions and help speed up the process of this change.

In conclusion, the reform of urban organs should be taken as an entity, and we should give overall consideration to the changes in systems, functions, organs, and personnel. We should do a good job in overall reforms under the principle of simplifying administration and improving efficiency. In this way, we will be able to "use the changes at the lower levels to bring about changes in organs at the higher levels" and to lay a good foundation for the overall institution of the reform of organs.

/8309

CSO: 4006/800

IMPLEMENTATION OF FURTHER PRICE REFORMS EXPLORED

HK080930 Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 87 pp 15-20

[Report presented by the Price Reform Study Group of the Chinese Academy of Social Sciences: "Problems and Ideas About Further Price Reforms"--directed by Zhang Zhuoyuan [1728 0587 0337] and Wang Zhenzhi [3769 2182 0037], compiled by Yang Shengming [2799 5110 2494], Bian Yongzhuang [6708 0516 1104], Wen Guifang [3306 2710 5364], Shi Xiaokang [4258 1420 2123], and Wang Zhengxiao [3769 2973 2400], with Ye Ruixiang [0396 3843 4382], Ma Liyuan [7456 7812 0337], Wei Yunlang [7279 7301 3809], and Liu Mie [2692 2734] also participating in the discussions]

[Text] I. Major Problems Encountered in Price Reforms

1. Over the last 8 years, solid progress has been achieved in price reforms which started in 1979 with a drastic increase in state purchasing prices of agricultural products. The previously gravely distorted price structure has improved and the hitherto highly centralized price management system is disintegrating. Different products have different modes of pricing, like centrally planned pricing, floating prices, and market prices, resulting in a jigsaw-puzzle-like structure comprising different modes of pricing. Dual pricing, namely, planned pricing and market pricing, may be applied to a single product. The system of a jigsaw-puzzle-like structure plus dual pricing is a basic feature of China's existing price system. The overwhelming majority of products now have their own market prices. The level of profits from products calculated on the basis of mixed average prices is approaching the social average rate of profits on capital. Therefore, we must no longer simplistically think that certain products are underpriced while others are under overly rigid price controls.

2. In learning the necessity of advancing the price system reform, and in ascertaining criteria for judging whether our price structure is rational, we should proceed from analyzing the disequilibrium in the price formation mechanism, if price structure is rational, we should proceed from analyzing the disequilibrium in the price formation mechanism, in price movements, and in the pricing environment facing enterprises. Disequilibrium in the price formation mechanism is mainly reflected in some products' lower planned prices compared with their market prices. This is underpricing in a new sense. When macroeconomic conditions or market conditions change, when labor productivity increases, and when machinery and equipment become more advanced, the prices of various products will move in different ways, thus further widening the gap between relative prices or distorting relative price

relations and causing the general price level to rise. The disequilibrium in the pricing environment facing enterprises can be said to be the most basic reflection of this irrational price system. To help create favorable conditions for fair inter-enterprise competition, prices must not only help provide equal opportunities for all enterprises to make a profit, but must also be a tool which all enterprises can use to wage competition.

3. Thus, the major problems of the currently irrational price system are: First, the price system still remains ossified and enterprises have inadequate powers over setting prices. In recent years, although the central government has relinquished direct control over a number of prices, in actuality this has seldom resulted in open market price. Local governments have often taken over this function for their own use, so that a situation of multiple planned pricing has appeared, unequal external conditions have appeared in enterprises, and inter-enterprise competition has become a competition for financial resources between various local governments. This confusion in planned pricing must be ended through reform. Second, dual pricing involves excessive price differentials. When market prices persistently remain more than double the planned prices, then this cannot simply be attributed to interaction between market demand and supply. This persistent disparity between the two categories of prices is mainly due to two reasons. First, planned prices deviate far from equilibrium prices determined by the profit rate on capital; and second, even when planned prices approach equilibrium levels, marginal changes in demand and supply relations can cause drastic changes in market prices because market pricing occupies a very small relative share. Thus, marginal changes in demand and supply relations are markedly reflected in market prices and do not affect planned prices. Third, the current trend in the price system is the automatic alternating of price increases caused by the distorted price structure. The effect of this distortion is further aggravated by disequilibrium in our price management system reform. This is markedly reflected in the prices of grain, cotton, and oils increasing alternately with the prices of other agricultural and sideline products, the prices of agricultural products increasing alternately with the prices of industrial products, the prices of basic industries' products increasing alternatively with the prices of processed industrial products, and exchange rates increasing alternately with domestic prices. Consider the example of agricultural products alone. The production of agricultural products is directly constrained by natural resources. The scarcity of resources limits a price-induced growth in the supply. The regulatory role of prices is reflected in the readjustment of the pattern of agricultural products, rather than in the inducement of growth in the total output of agricultural products. With the decontrol of the prices of agricultural products other than grain, cotton, and oils, the prices of some agricultural and sideline products have risen very quickly and raced further ahead of the prices of other agricultural products like grain. Consequently, the area used for growing grain has decreased, input has been inadequate, and the output of grain has tended to fall. This tendency in turn induces the market price of grain to increase and widens the gap between market prices and state purchasing prices, so that it becomes difficult for the state to purchase enough grain and the pressure on the state to increase

purchasing prices of grain becomes greater. When grain prices rise, the area used for growing grain will increase, but because resources are scarce, the area used for growing other crops will decrease or grow at a reduced rate, thus widening the gap between the demand for and supply of non-grain products. These mutually promoting price increases should have stopped when a point of relative structural equilibrium was attained at a higher price level, but this equilibrium is short-lived because it is affected by external factors like industrial production and the demand mechanism. Fourth, an effective system for the macroeconomic management of market prices has not been formed.

II. Several Basic Conditions Constraining Further Rice Reforms

1. We must achieve growth amid stability and undertake reform amid development. Theoretically, economic reform requires a relatively relaxed environment where some financial resources are available as compensation for structural changes in economic interests. Under the current situation these financial resources can be made available only by reducing investment in fixed assets if the people's living standard is to remain relatively stable or even gradually improve. However, if development in the 1990's is to be ensured, the scale of investments during the Seventh 5-Year Plan must not be greatly reduced and the economic growth rate must be maintained at around 8 percent. How the price system can be fundamentally changed without slowing down economic growth represents the first condition constraining our price reform. Over the past 8 years we have gained considerable experience in resolving the contradiction between reform and development. Not only did we successfully readjust the price system (allowing the prices of cotton textiles and synthetic fibers to rise and fall since 1983) and transform the price formation mechanism (decontrolling the prices of minor commodities since 1981 and allowing the prices of machinery and electrical machinery to vary since 1982) under a relaxed environment, but we also decontrolled the prices of major nonstaple foodstuffs like vegetables and instituted dual pricing in the means of production in a tight economic environment. Practice has shown that reforms usually yield unsatisfactory results or will be overly costly if undertaken when the economy is overheated or there is relative economic contraction. Difficulties affecting reforms due to irregular economic fluctuations may even be more serious than the constraint of tight environment in which a steady growth rate prevails. Achieving growth amid stability and undertaking reform amid development constitute the only way to fuse reform and development together and minimize conflicts, and constitute the strategic principle for handling the relationship between reform and development. We must reexamine the basic ideas about price reforms for the last 4 years of the Seventh 5-Year Plan under the precondition that a steady economic growth rate of around 8 percent is ensured.

2. Achieving systematic coordination in reform is an important condition for the smooth progress of price reforms. However, the systematic coordination of reforms in various areas often represents an ideal situation which is very difficult to attain in practice.

Constraints related to the interests of various quarters in reform, over-estimation in the cost of reform, the requirements for being scientific in the overall design of reforms, and interference arising from social factors

in reforms, all increase the difficulty of undertaking an all-round reform and achieving all-round coordination. It appears that China's reform must not only advance gradually, but also take the path of developing in stages, giving priority to key areas, and achieving coordination patchily. After ascertaining the overall goal of reform, we must in practice explore plans for the specific implementation of reform. The ordered linking of various plans produces a complete chain for overall reform. This patch-coordination design increases the difficulty of implementing price reforms. We must fully consider possible aberrations in price reforms arising from a lack of coordination with other reforms, and strive to plan for possible short-term remedial measures and policies.

3. Our enterprise system reform will be the focus of further reforms. Designing the price reform entails appropriately forecasting the progress and depth of the enterprise system reform in the coming several years. Our overall assessment is that during the Seventh 5-Year Plan, particular in its last 2 years, some solid progress will be achieved in the enterprise system reform, and a basic microeconomic framework will be initially established which will have a new socialist state enterprise system as its main feature and which will allow the simultaneous existence and development of many different economic sectors. The weak budgetary restraints on state enterprises as practiced under the old system will begin to be strengthened, enterprises' responsiveness to the market will increase, and inter-enterprise competition will initially take shape. Like the price reform, of course, the enterprise system reform will be a considerably lengthy historical process which possibly will not be accomplished during the Seventh 5-Year Plan, and setbacks in reform will be difficult to avoid. However, the progress of the enterprise system reform will help create a microeconomic basis for further reforming the price system.

4. During the Seventh 5-Year Plan only a certain degree of progress will be achievable in perfecting the system of indirect macroeconomic management by the state, and establishing a relatively perfect macroeconomic regulatory and control system will still be impossible. An imperfect macroeconomic regulatory and control system will cause two persistent disorders affecting the transformation of the economic system: first, regulation by the market mechanism will more seriously lack an automatic equilibrium-attaining capability under the condition of a defective market environment; and second, administrative measures for effecting intervention in times of market fluctuations will easily land the newly instituted market in the quagmire of indirect administrative coordination. Defects in the indirect macroeconomic regulatory and control system will create some unexpected difficulties affecting the progress of the price reform and the functioning of new market prices.

5. The condition of fiscal revenues and expenditures is another major factor constraining the progress of reform. The requirement for maintaining a considerably high economic growth rate may affect the balance between fiscal revenues and expenditures in two ways: First, economic growth is the source of growth in fiscal revenues; and second, continually increasing investments will still be a top priority in fiscal expenditures. Even though the main

agent of investment may change in accordance with the reform of the enterprise system, if centralized investments by the state are lacking, it will be impossible to build a solid foundation for supporting the [word indistinct] self-expansion of existing enterprises or to end the hitherto highly prominent structural imbalance because China's infrastructure and basic industries are very weak. Therefore, it will not be surprising if in the next 4 years the central government's fiscal deficits amount to around 50 billion yuan. In proceeding to design the price reform we should anticipate the inflation rate resulting from these nonprice factors and allow an adequate margin in controlling the general price level.

III. Comparisons and Choices in the Price Reform Strategy

1. The problem of choosing a price reform strategy still remains unresolved. Currently there are several major ideas about further reforming the price system: 1) It is believed that reforming the pricing of the means of production should be the focus of the current price reform, and readjusting and reforming the pricing of other products should center round this focus. 2) It is believed that the starting point of the price reform should continue to be the continual deepening of the reform of the pricing of agricultural and sideline products, while the prices of consumer goods should gradually be decontrolled; and reforming the pricing of the means of production should come last. 3) It is believed that the pricing of consumer goods, the means of production, and services and housing accommodations should not be reformed in any set order. If conditions are ripe for reforming the pricing of certain products, that reform should be undertaken first, and the pricing of other products should be correspondingly readjusted.

2. Our tentative strategy to further reform the price system can be summarized as follows: Reforming the pricing of the means of production should be taken as the core, reforming the pricing of other products should be correspondingly coordinated with that reform, and a strategy of advancing the reform in small steps and in a balanced and sustained way should be adopted.

The core of the price reform must aim at the means of production. Both distortion in the price system and rigidity in the price management system are most seriously reflected in the pricing of the means of production. Unless the pricing of the means of production is reformed, the entire price system and price management system will not become rational and viable. The experiences of Hungary and Yugoslavia has shown that decontrolling the prices of consumer goods before reforming the pricing of the means of production, particularly those which are basic products, will undermine the industrial structure and create hidden hazards in further national economic development. Decontrolling the prices of consumer goods and processed products while underpricing the means of production will stimulate the development of light industries and processing industries, thus ushering in a golden age of economic growth. Soon this light-industry-led economic growth will inevitably be restricted by the limited supply of basic products. In order to alleviate this restriction and ensure a sustained growth rate the country can only massively import materials, raw materials, energy resources, and so on to satisfy the processing industry's

need for growth. But because export growth lags behind import growth, a deficit in the balance of payments is inevitable. Subsequently, to restore equilibrium in the balance of payments the country must reduce imports so that a serious shortage of basic industrial products will recur on the domestic market. Then, prices of basic industrial products must necessarily be decontrolled so that the balance between fiscal revenues and expenditures can be restored. Because basic industries are characterized by long investment cycles and slow increases in the supply of output, drastic price increases are difficult to avoid. These price increases will cause the prices of processed goods and consumer goods to rise, and will also cause a recession in the processed goods and consumer goods industries so that the phenomenon of equipment lying idle and operating under capacity will become widespread, and the entire national economy will experience "stagflation" until investment in the basic industries is transformed into usable means of production. Although borrowing from abroad to finance imports can help satisfy this pressing need, it cannot solve the basic problem. Both Hungary and Yugoslavia have undergone such a painful stage since the outbreak of the global oil crisis, their economies have experienced zero or even negative growth, and even now they have not shaken off the problem of "stagflation." China's economic fluctuations since the end of 1984 have also exemplified the above-mentioned macroeconomic cycle. If we proceed from the pricing of the means of production, particularly basic industrial products, to rebuild the price formation mechanism, this will be conducive to curbing the traditional economic system's chronic malady of thirst for investment and prevent the consumer goods industries' feverish growth and excessive contradiction. Decontrolling the prices of the means of production in the first place will not only curb the feverish growth in the output of consumer goods and processed goods, but will also further stimulate the investment of unbudgeted funds in basic industries. This will help prevent structural aberrations in the process whereby the role of the main agent of investment will continually shift to enterprises. Before the accomplishment of the enterprise system reform, government intervention directed against the relatively large group of prices of processed goods and consumer goods will help force enterprises to absorb the impact of price increases.

3. Price reforms should follow the principle of advancing in small steps and in a balanced and sustained way. Under a dual-structure economic system it is important that the transformation of the pricing model is balanced and sustained. Here balance has two meanings. First, the extent of the transformation of the price formation mechanism should be roughly balanced between various industries, particularly between those industries with relatively close input-output relations. Only in this way can a relatively balanced market be formed. The quantity of grain purchased by contractual order should be compatible with grain rations supplied to cities at low prices and according to set quotas. The quantity of steel products sold at decontrolled prices should at least match the quantity of steel products needed for producing those processed industrial products and consumer goods whose prices have been decontrolled. An imbalance in the price formation mechanism between inputs and finished products should be avoided. This is a necessary measure for reducing defects in the dual pricing system. Second, in various years of the reform period the extent of the transformation of the price formation mechanism should be roughly the same. For example, every year an additional

20 percent of all steel products sold can be offered for sale on the market, that is, every year around 20 percent of the total quantity of products originally sold at planned prices can have their price decontrolled. Thus, the macroeconomic environment will not be affected by overly stringent requirements. Evenly dividing the task of transforming the pricing model between several years will not only allow us to have sufficient time to reorganize the economic order and organize market circulation, but will also help stabilize the overall situation and prevent economic fluctuations. By the term sustained we mean that the reform must advance steadily without any breaks. Contradictions and conflicts under the dual-structure economic system will increasingly intensify into a static situation. Continually enhancing the strength of the new system and creating a general atmosphere of optimistic expectations will help alleviate contradictions and conflicts. A grave disadvantage of working by fits and starts is that disequilibrium in the motion of the price system itself will make the price structure continually degenerate from a rational state to a distorted one. If a balanced and sustained reform is maintained during the Seventh 5-Year Plan, a basic transformation of the pricing model may hopefully be achieved.

IV. Specific Ideas About the Price Reform During the Seventh 5-Year Plan

1. What situation China's price system ends up in at the end of the Seventh 5-Year Plan depends on the progress of the price reform. Conversely, expectations about the situation of the price system at the end of the Seventh 5-Year Plan will also be an important variable affecting the design of the progress of the price reform. Proceeding from various factors constraining the price reform we can make the following basic prediction. The model for the price system will still be basically characterized by the system of a jigsaw-puzzle-like structure plus dual pricing, and there will be no basic change in the coexistence of three major forms of pricing, namely, centrally planned pricing, floating prices (or intervention pricing; for example, pricing with a ceiling and a protective floor), and market prices. The coexistence of dual pricing for the same products, namely, market pricing and planned pricing, will not disappear and may even develop into a relatively perfect functional system and continue to play a transitional role in integrating readjustment and decontrol. However, the relative importance of planned pricing, floating prices, and market prices will basically change. As the principle forms of pricing, floating prices and market prices will be expected to advance in relative importance to approximately a 70 percent share, while centrally set prices will decline in relative importance to less than a 30 percent share. This prediction is based on the following reasons: 1) Centrally planned pricing cannot be totally abolished. On the contrary, it will continue to be of considerable relative importance. A number of most important basic consumer goods must continue to be under state-controlled pricing. Moreover, in the case of key projects financed by centralized state investment and key industries under monopolistic operation, because directive plans and the system of central allocation of goods and materials must continue to be enforced, centrally planned pricing must necessarily be retained correspondingly. 2) Dual pricing will still apply to the pricing of agricultural products and basic industrial products. 3) Because of the relaxation and decline in

directive planning, the scope of planned pricing will diminish and a vacuum will be filled by floating prices and market prices. Those products of basic industries which are used in daily production and not in the state's key investment projects will begin to be supplied on the market and their prices will gradually be decontrolled. In the case of prices of ordinary daily consumer goods and consumer durables, the majority of them have been subject to relaxed control, and half of them have been decontrolled. Furthermore, action consists only in exercising intervention when these prices fluctuate. The proportion of market prices subject to intervention will gradually increase over the coming 4 years. The realm of genuine free-market prices may expand more slowly than the realm of market prices subject to intervention. The latter category of prices mainly comprises three forms: 1) Floating prices with a fixed range of variation whose ceilings and floors are prescribed by the state's commodity prices department. The setting of median values for these floating prices depends too heavily on planning and it is difficult to attain accuracy and ascertain the appropriate ranges of variation. Therefore, the relative importance of these prices will not considerably increase. Prices with ceilings and prices with protective floors may develop rather quickly. Prices with ceilings will mainly be used in the pricing of basic industrial products and daily necessities, while prices with protective floors will mainly be used for agricultural products. 3) Approved cost-plus-markup prices. In setting these prices enterprises add a markup to the cost according to a profit rate stipulated in the state's pricing rules and then report the proposed price to a commodity price department for approval. This pricing method both allows enterprises to enjoy some decision-making power over price setting and can to a certain extent prevent price changes from getting out of control. It is estimated that as a transitional form of pricing, this pricing method will substantially grow in relative importance over the coming 4 years.

2. Basic tentative ideas on reforming the pricing of basic industrial products.

Reforming the pricing of the means of production should start with reforming the pricing of basic industrial products, which in turn should start with reforming the pricing of coal and steel products. The reasons are as follows:

First, the gap between the demand for and supply of coal and steel products has been narrowing. Over the past several years the output of coal has grown rather quickly, always at a rate above 7 percent since 1983. The disparity between demand and supply has markedly eased. However, because coal is underpriced the profit rate on capital for the whole industry has remained below 1 percent and a considerable proportion of enterprises are operating at a loss.

It is generally believed that steel products are currently still in short supply. We think we should concretely analyze this question. First, the so-called shortage refers only to certain items and does not apply to all kinds of steel products. This condition reflects the incompatibility between the production pattern and the demand pattern. Aside from this incompatibility in the investment pattern, the problem of short supply is also crucially linked to the irrationality of prices. Second, the current shortage has been largely artificially created. Considering total quantities, annually China

produces over 30 million tons of steel products, imports nearly 20 million tons, but consumers only 40 to 50 million tons. Actually, supply does not fall short of demand. The problem is overstocking. At the end of 1985 China had a stock of 26 million tons of steel products, equivalent to two-thirds of that year's output. In 1986 there was a trend to further increase stocking. This situation is unique in the world. Moreover, the reason for increased stocking lies in pricing. Over the past several years prices of the unplanned output of steel products have soared so that aside from desperately pressing the state for increased planned-supply targets, enterprises have also massively purchased unplanned supplies of steel products. This has caused the vicious cycle of short supply--scrambling for purchases--higher prices--scrambling for purchases--increases stocking--aggravated disparity between demand and supply. Third, currently marked prices of steel products are stable, or even declining. According to statistics, early this year in the markets operated by the means of production service companies in 17 cities which include Shanghai, Guangzhou, Chongqing, Shenyang, and others, transaction prices have hit an all-time low since the decontrolling of prices of the unplanned output of steel products.

Second, coal and steel products are representative items of the means of production. Coal is a major fuel and a representative species in the spectrum of energy resources. In China the largest proportion of those energy resources which are used up once and for all account for around 70 percent of China's total output or consumption of energy resources. China has abundant coal reserves and over a considerable period of time in the future coal will still mainly be featured in our energy resources pattern. Therefore, coal is the core in rationalizing the prices of energy resources. Only if the price of coal has been rationalized can price ratios between coal and oil and between coal and electricity be rationalized too. Then the problem of pricing in the whole spectrum of energy resources can be more rapidly solved.

Steel products constitute a representative item among the spectrum of materials and raw materials produced by basic industries. They are extensively used in both light and heavy industrial sectors. Moreover, a relatively larger number of problems are involved. Readjusting and reforming the pricing of steel products will not only help develop their production and help ease the disparity between demand and supply, but will also promote the reform of the pricing of materials and raw materials because if the reform in this link as the central link is grasped, reforms of forward and backward links will also be promoted.

Third, considering the capacity for withstanding changes, if the extent of the readjustment and decontrol of prices of coal and steel products are appropriate, enterprises will be capable of absorbing the relevant changes. During the Sixth 5-Year Plan, when the prices of fuels, materials, and raw materials were readjusted, enterprises in the processing industries adopted the following major countermeasures: 1) developing new products and new varieties of products and raising product prices; 2) changing the product pattern and increasing the output of more expensive and profitable products; 3) increasing the output of marketable products; 4) developing many different lines of operation and expanding into tertiary industries; 5) expanding the marketing of their own products and turning some commercial earnings into industrial profits; and

6) seeking a solution in product pricing by shifting burdens which arose from readjustments of prices of materials, raw materials, and fuels to other units through successive levels, or by increasing revenues by shoddy work, the use of inferior materials, disguised price increases and so on, while there is a lack of initiative, enthusiasm, and a sense of urgency in absorbing the impact of price readjustments by improving the operation and management standards, quickening technological transformation, increasing labor productivity, reducing consumption, and lowering costs.

It appears that in reforming the pricing of basic industrial products, some products should be chosen before others only if the disparity between their supply and demand is easing and only if the majority of enterprises have a definite capacity for absorbing changes in their prices, so that a more effective transformation of the price mechanism can be achieved at lower reform costs.

Considering methods of reform, first, relevant state departments must ascertain the extent of readjustment or decontrolling of prices of various products in light of requirements for national economic development, financial conditions, the capacity of enterprises and residents to withstand relevant changes, and so on. Second, on this basis, enterprises' capacity for absorbing and withstanding various products' price changes must be considered, different ranges within which price readjustments are permitted must be specifically stipulated for different industries, and then each industry must readjust the relative prices of its entire spectrum of products. Third, after each industry has done this, relative prices of products of different industries and different sectors must be further readjusted so that the prices of industrial products can be basically rationalized.

3. Basic tentative ideas about perfecting the reform of the pricing of agricultural products.

In China conditions are far from ripe for relying solely on regulation by the market mechanism in the grain sector. First, China's grain output is not large enough to provide an ample supply. Second, commercial organizations that do purchasing, storing, transporting, marketing, and other work, which are indispensable to regulation by the market mechanism, are still far from enough. Building a sound system of such organizations is impossible in, say, 3 to 5 years' time. Third, according to various nations' experiences, a grain market which relies solely on demand and supply relations will be characterized by rampant speculation and wild fluctuations in grain prices. This will be purely disadvantageous to producers and consumers and will often disrupt socio-economic life and social order. Therefore, in the pricing of agricultural products, over a relatively long period of time market pricing will coexist with central pricing by the state, the main form of which will be pricing by contract for state purchase.

Perfecting the pricing of agricultural products includes the following three things: 1) The dual pricing system of the purchasing and marketing agricultural products, particularly grain products, must be strengthened, and prices under the dual pricing system must be stabilized. China's actual conditions show that although the steady development of agricultural production and the

readjustment of the pattern of agricultural production must not be divorced from the regulatory role of prices of agricultural products, they cannot be achieved by relying only on price parameters. The dual pricing system of purchasing and marketing and pricing under the dual pricing system can encourage peasants to use part of their net income for expanded agricultural reproduction. In exchange or purchases, a supply of cheap or low-priced chemical fertilizers, pesticides, and other agricultural means of production must be coordinated with relatively low contractual state-purchase prices. Supplying the agricultural means of production at preferential prices is equivalent to a cash subsidy, and actually amounts to greatly increasing the state purchase prices of grain. This actually represents pricing in kind. Thus, agricultural inputs can be increased every year in a planned way.

2) Intervention with respect to products supplied solely by market pricing must be strengthened to prevent possible drastic changes in the pattern of agricultural production which may be brought about by fluctuations in prices. The methods of intervention are: First, imposing ceilings on industrial crops which compete with grain for resources to prevent the blind expansion of output; second, setting protective price floors for grain which should be above the average production costs of grain, and having the state buy surplus grain on the market when market prices fall below set contractual prices; and third, guiding the pricing of general agricultural and animal husbandry products through price forecasts and setting genuine guidance prices.

3) Contractual state purchase prices of grain must be increased in a planned way. The increases in these prices must be based on the following considerations: First, peasants' enthusiasm in growing grain; and second, urban residents' consumption level and living standard, and the redistribution of the increments to national income. Different methods of readjusting the state purchase prices of grain can be adopted in different phases. Before the Seventh 5-Year Plan, base figures for state purchases of grain can be stabilized and contractual state purchase prices can be increased; and late in the Seventh 5-Year Plan, base figures for state purchases can be reduced and the proportion of state purchases made at negotiated prices can be increased. Both methods can bring state prices and market prices closer and increase grain prices.

/8309

CSO: 4006/800

NEW METHOD OF ASSET DEPRECIATION CALCULATION

HK290914 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 29 Jun 87
p 1

[Article by staff reporter Wang Yanping]

[Text] Beginning Wednesday, a new method of calculating the depreciation of fixed assets will go into effect at all of China's 400,000 industrial enterprises and all its transport business, according to the Ministry of Finance.

"This move is aimed at accelerating the renewal of equipment and the technical upgrading of enterprises by having them set aside depreciation funds more rationally and use them properly," said Zhu Size, a senior official at the Ministry of Finance.

At present, some of the country's industrial equipment is out of date, and the upgrading of technology is slow, according to Zhu.

China previously used a "unified method" to allow for depreciation. An enterprise's figured depreciation at one rate for both equipment and buildings.

The new "system by categories" specifies different rates based on the classification and depreciation life of machines and buildings, as stipulated by the State Council. A percentage of the enterprises' profits will be set aside as special funds for upgrading.

China began using the unified system in the 1960's, when the State went to extremes to simplify the calculation procedures.

"Although it was simple, the old method could not reflect the wear on fixed assets. Moreover, it hindered technical improvement and equipment replacement because the average depreciation rate was 4.3 percent, lower than that in most developed countries. The rate is 6.38 percent in the United States and 5.9 percent in Japan," explained Zhu, who is in charge of the programme.

The average depreciation rate for an enterprise as a whole is expected to rise from 4.3 to 5.3 percent.

"The 1 percent rise means that the depreciation charge will increase by 500 million yuan, which will add to production cost. This will decrease state revenue because the producers will otherwise lose profits as the state does not allow price-raising," Zhu said.

China began trying the category system in 1983 in 550 key enterprises in machine-building and electronics, areas the state thought should be upgraded quickly.

About half the enterprises in industry and transport have gradually introduced the method. Now all will use it.

Before 1990 all enterprises, including those in agriculture, commerce, foreign trade, finance, and insurance, will adopt the category system, Zhu said.

Under the new system, the depreciation rate for each kind of fixed asset will be fixed for its depreciation life--8 years, for example, for computer equipment, according to the documents issued by the State Council.

"This is different from the general method used abroad, under which the depreciation rate tapers off during the depreciation life," Zhu said.

In calculating the depreciation rate, the residual value will be set at between 3 and 5 percent by the State Council, with the industrial ministries deciding the specific percentage.

The ministries will inspect the enterprises under their control to insure that funds set aside for depreciation are not used for capital construction and that depreciation rates are not changed.

"If enterprises act in violation of the regulation, they will be fined," Zhu stressed. "But there are two exceptions."

If the enterprise's new depreciation rate is below its old one, it can deduct depreciation funds at the original rate until 1990, subject to approval by the Ministry of Commerce.

Failing enterprises can also stick to old rate because the new one could lead to even greater losses.

/9599

CSO: 4020/234

BRIEFS

MAY RETAIL SALES--Beijing (CEI)--According to data provided by the State Statistics Bureau, China's total volume of retail sales was up 17.5 percent in May over the same period last year to 45.82 billion yuan. Included were 38.93 billion yuan of retail sales of consumer goods, up 16.9 percent; and 6.89 billion yuan of retail sales of farm machines and implements, up 21.1 percent. Goods sold to individuals during this period increased by 16.7 percent to 34.47 billion yuan and that to social groups by 18.9 percent to 4.46 billion yuan. [Text] [Beijing XINHUA in English 0532 GMT 29 Jun 87] /9599

CSO: 4020/234

DOJE CERING ON TOURISM, EDUCATION, STRUCTURAL REFORMS

HK290417 Lhasa Xizang Regional Service in Mandarin 1030 GMT 28 Jun 87

[Excerpts] In his government work report to the regional people's congress session, regional government Chairman Doje Cering said that the region should speed up the development of tourism and foreign economic relations and trade. He said: Practice has proven that taking tourism as the core in developing Xizang's economy and actively promoting foreign economic relations and trade accords with the region's realities. We not only obtain relatively good economic results in this way but also gain notable social benefit.

The tourism departments at all levels should strive for new development this year on the basis of summing up experiences. Foreign economic relations and trade should advance in still greater strides on the basis of the relatively good progress made last year.

We must further develop education. The government at all levels must raise this to the plane of strategy and assign it an important place on their agenda. They must view this work with sufficient importance and get a serious grasp of it. We should adhere to the principle of concentrating on public running of schools and running schools within the region and concentrating on the Tibetan language in education. We must attach importance to stepping up elementary education and give priority to teacher training. We must consolidate and improve tertiary education. We must actively develop adult education and professional and technical education.

Doje Cering said: In reforms in the rural and pastoral areas, we must integrate responsibilities, powers, and interests, and further perfect the various responsibility systems. We must clear the circulation channels for developing commodity economy. We must change the investment pattern in the rural and pastoral areas and continue to increase investment in key projects. We must promote diversification and the township and town enterprises without slackening grain production.

In enterprise reform, we must keep a firm grasp on the cardinal link, invigorating the enterprises, and focus the reforms on perfecting the enterprises' economic mechanism. We should selectively institute or trial-operate various types of contracted management responsibility systems. The

enterprises should truly become relatively independent economic entities responsible for their own profit and loss, and operating themselves.

Doje Cering stressed in his report: To fundamentally ensure the smooth progress and healthy development of construction, reform, and opening up, the government at all levels and the people of all nationalities must adhere to the four cardinal principles, resolutely oppose bourgeois liberalization, vigorously step up the building of spiritual civilization, and consolidate and develop the political situation of stability and unity.

We must focus on conducting education in upholding party leadership and in patriotism for preserving the motherland's unity and strengthening nationality solidarity, to stimulate the patriotic spirit of the people of all nationalities and patriotic figures in loving Xizang and the motherland and invigorating China. Thus they will work in concert to build a new socialist Xizang.

/9599

CSO: 4006/795

GANSU MEETING CALLS FOR MORE PROPAGANDA FOR REFORMS

HK190323 Lanzhou Gansu Provincial Service in Mandarin 2200 GMT 18 Jun 87

[Excerpts] On 17 and 18 June, the propaganda department of the provincial party committee invited responsible comrades concerned of media and theoretical departments to a forum to discuss how to step up media propaganda for the reforms. Hou Zongbin, deputy secretary of the provincial party committee, and (Song Dingchun), member of the standing committee of the provincial party committee and director of the propaganda department, made speeches.

After discussion, the participants held that although the media and theoretical circles have done a lot of propaganda work for reforms in recent years, this work remains a weak link. To speed up reform, it is essential to strengthen media propaganda for reform. We must vigorously publicize the province's achievements in reform over the past 8 years and advanced examples that have sprung up in reform. We must publicize the correctness and stability of the current policies and the necessity of carrying out further reform. We should carry out appropriate propaganda based on the actual conditions in Gansu and the situation in reform and in light of the problems that have emerged in reform, to clear away certain worries of the masses regarding the reforms and clarify certain muddled ideas.

We must further emancipate our minds and encourage bold exploration with an attitude of enthusiasm and caution.

During the meeting, (Liu Xueguo), deputy director of the provincial structural reform office, said that Gansu has scored the following 10 achievements in the economic structural reforms over the past 8 years:

1. Reforms have promoted the sustained and steady development of the province's economy, and economic results have continually improved. Total industrial and agricultural output value in 1986 was 17.38 billion yuan, a rise of 80.3 percent over 1978.
2. All-round development has occurred in the rural economy. Total agricultural output value in 1986 showed a rise of 7.1 percent over 1985.

3. Major progress has been made in enterprise reforms. The enterprises have been markedly invigorated. Some 920 enterprises under whole-people ownership at and above county-level have instituted the plant manager and director responsibility system. Large numbers of enterprises have established the system for selecting, hiring, and examining cadres. By the end of last year there were over 80,000 contract workers in the province, representing 10.4 percent of the total workforce in the province. We have instituted the leasing management system in small commercial, catering, and service trades, and small industrial enterprises.

4. The production structure has become more rational. Various economic and operational forms and methods have developed. We have basically harmonized the relations between industry and agriculture and between light and heavy industry, which were previously out of proportion to a serious degree.

5. We have promoted reforms of the planning and circulation systems. In production plans, guidance planning was implemented in the whole of agricultural production in 1986. Mandatory planning in industry applies to only eight products covered by the provincial plan for this year.

6. Reforms in prices and wages have made good progress. Relatively great changes have started in the irrational price system as a result of reforms, and we have initially formed a new system in which three kinds of price coexist, namely the state fixed prices, the state guidance prices, and the market regulatory prices. There has been some change in the serious discrepancy between the value and the price of certain commodities. In the wages field, we have focused on resolving the problems of the two big rice pots, formed the distribution setup, and resolved long-standing problems of irrational wage relations and so on. As a result certain outstanding contradictions in wage relations have eased.

7. Good progress has been made in revenue, taxation, and fiscal reform. The regulatory function of taxation has been further strengthened. Capital markets have been established and developed relatively rapidly.

8. New developments have occurred in opening up to the world and in lateral ties.

9. Relatively big improvements have taken place in urban and rural living standards. We have changed the previous situation of attaching much importance to production and little to living standards and made the proportional relations between accumulation and consumption more rational. Average peasant income in 1986 was 85 percent more than in 1980, while average urban worker wages rose by 65.5 percent.

10. New developments have occurred in pilot project work in urban comprehensive and single-item reforms.

/9599

CSO: 4006/795

DEMOCRATIC PARTY FIGURES BRIEFED ON ECONOMIC SITUATION

HK200455 Chengdu Sichuan Provincial Service in Mandarin 0000 GMT 19 Jun 87

[Excerpts] Yesterday the provincial party committee invited responsible persons of democratic parties and the Federation of Industry and Commerce and well-known non-party figures to a forum to discuss questions in the province's economic construction. Jiang Zeting, secretary general of the provincial government, briefed the participants on the province's current economic situation and the outstanding problems in economic work.

Jiang Zeting said: The province's general economic situation is good. Industrial output value from January to May was 19.98 billion yuan, a rise of 12.8 percent over the same period last year. Some success has been scored in the double increase and double economy drive. The province has cut investment by 370 million yuan. The growth in capital construction investment from January to May was much lower than the growth recorded in the same period last year. Financial revenue increased and expenditures dropped. There are still hopes of a good harvest of spring-harvested grain and industrial crops.

However, the province's economy still faces many problems, and we cannot be blindly optimistic. Jiang Zeting gave specific explanations on problems of widespread concern to the masses in agriculture, prices, financial revenue, and expenditure, and electric power supplies.

He said: In order to increase revenue, Sichuan will further promote various types of contracted management responsibility systems. Do a good job in the double increase and double economy drive, and strictly practice three guarantees and three reductions.

/9599

CSO: 4006/795

TREASURY NOTE DISCOUNTING EXPLAINED

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 4, 4 Apr 87 pp 36-37

[Article by Huang Yiqing [7806 2184 0615]: "Several Issues Pertaining to the Discounting of Treasury Notes"]

[Text] Beginning on 1 July, based on the "Regulations of the PRC on Treasury Notes, 1985," issued by the State Council and the "Provisions Pertaining to Treasury Notes Discounting Procedure" announced by the People's Bank of China, all qualified banking institutions in the country may offer the new service of discounting treasury notes issued in 1985. This is a new operation, and in order to facilitate its successful launching, the author would like to discuss a few relevant issues:

1. Discounting and treasury note discounting. In capitalist countries as well as in the old days in China, discounting is one form of bank loan, that is, when industrial and commercial enterprises need cash, they take their bank notes which have not yet matured to a bank to apply for redemption at a discount. The bank pays the owner of the note the face value of the note less the amount of interest due between the day of discounting and the day of maturity based on the bank's set rate of interest (also known as *agio*). When the note matures, the bank collects the money from the issuer of the note. This is discounting.

Treasury note discounting refers to the situation where the holder of a treasury note, in an emergency situation, wants to sell his note to the bank before it is due; the bank cashes the note for the owner and deducts the interest due for the period between the day of discounting and the day of maturity, based on the bank's set discount rate (interest rate). When the treasury note matures, the bank redeems the note according to pertinent regulations, recovers the cash paid out during discounting, and earns interest in the process.

2. The purpose of treasury note discounting operations. The purpose of issuing treasury notes is to enable the state to raise funds to finance key point construction, regulate the overall economy, coordinate the different sectors within the economy, maintain a proper equilibrium, guarantee the success of the restructuring of the economic system and realize the continuous and stable development of the economy. When treasury notes were first issued, discounting was not considered, but as more notes were issued, it became apparent that some holders of these notes had to cash in their notes before they were due

because of emergencies. Therefore the State Council has decided to let the banks start a discounting operation to accommodate those purchasers of treasury notes who urgently need cash. Naturally the state encourages the purchasers to redeem their notes at maturity to avoid taking up too much of the bank's credit funds, thus defeating the purpose of issuing these notes.

3. How to calculate the discount on treasury notes. Article 8 of the Treasury Note Discounting Procedure issued by the People's Bank of China explains how treasury notes are to be discounted. The formula is as follows:

The cash amount paid by the bank is equal to the principal and interest of the note held to maturity minus the discount (discount is the sum of the principal and interest of note held to maturity times the discount rate times then discount period).

In simple terms, this means, first, that one must figure out the principal plus the interest the owner of note is entitled to receive when the note becomes due; the bank treats that sum as a loan, and collects the interest in advance (the bank deducts the interest due from the day of discounting to the day of maturity). The remainder then becomes the cash amount payable to the owner of the note.

For example, someone wants to cash in a 100-yuan treasury note at the bank 10 months before it matures. The bank calculates that at maturity, the note is worth 145 yuan that is principal plus interest. The bank then calculates the amount of interest it should deduct for early redemption: assuming the discount rate is 1.293 percent per month, the interest on 145 yuan for 10 months comes to 18.75 yuan, and that means the cash amount it should pay for the note is 145 yuan less 18.75 yuan, or 126.25 yuan. This equals the principal plus interest of the note at maturity less the amount of interest deducted by the bank.

4. The bank's accounting procedure in treasury note discounting. Last November, at a treasury specialist conference, the proper accounting procedure regarding treasury note discounting was discussed. The general view was that upon launching the discounting operations, the specialized banks should introduce special categories and items for accounting purposes. There are three different methods for setting up the accounting categories and specific procedure:

The first method: In accounting for their treasury note discounting operations, the specialized banks should create a new category in the statement entitled "Principal and Interest Payment for Discounted Treasury Notes" and a new category entitled "Discounted Undue Treasury Notes" for statement. When a note is being discounted, the bank enters the cash payment on the credit side of the amount of the "principal and interest payment for discounted treasury notes"; when the note is redeemed at maturity, the principal and interest collected will be entered on the debit side, and the debit balance will be transferred to the bank's operating income account. The off-the-statement entry records the amount of the undue treasury note acquired. This procedure has the advantage of being simple, but its disadvantage lies in the fact that it is impossible to verify the off-the-statement entries, that is, it is impossible to verify the accuracy of the amount of the undue treasury notes acquired with any other account in the book.

The second method: In addition to the two new categories created under the first method, this procedure introduces an account of "interest deducted in treasury bond discounting" under the "suspense receipt" category. This accounting method is on a cash basis, that is, the category of "principal and interest payment for discounted treasury notes" reflects both the cash the bank paid out and the amount of the discount, and it corresponds to the cash reserve category and the debit side of the account of "interest deducted in treasury notes discounting" created under the "suspense receipt" category. The credit balance of the category of "principal and interest payment for discounted treasury notes" is equal to the sum of principal and interest of the discounted undue treasury note as reflected in the off-the-statement entry. The problem with this procedure is that the amount of interest under the "suspense receipt" category is actually realized only upon maturity of the treasury notes, and therefore it is a receipt in name only; in fact it is a fund not yet received, and this contradicts the bank's existing accounting principle.

The third method: In addition to the two new accounting categories created under the first method, this procedure adds "interest receivable from treasury note discounting" as an off-the-statement category. This procedure uses the newly added category of "principal and interest payment for discounted treasury notes" to account for the bank's cash payment during discounting operation, and uses the entry of "interest receivable from treasury note discounting" to account for interests accrued but not yet received. The sum of the balance of these two categories is equal to the sum of principal and interest of the discounted undue treasury bonds recorded off the statement.

Comparing the above three procedures, the third method allows the verification of the value of undue notes held by the bank subsequent to discounting by other entries in the book, and the procedure complies with the bank's cash basis accounting principle. Therefore it is the preferred accounting procedure. The banks may refer to these categories and follow this accounting method.

Treasury note discounting is a complicated and highly policy-oriented operation which requires certain business skills. The success of this operation will greatly reinforce the state's credibility and enhance the reputation of the treasury notes. The banks should strengthen leadership and cooperate with other relevant departments; they should prepare themselves, publicize the operation, and set up a good network to ensure the success of the treasury note discounting operation.

12986/12951
CSO: 4006/703

SHIJIAZHUANG'S THRIVING TRUST, INVESTMENT COMPANY

Shijiazhuang HEBEI RIBAO in Chinese 7 May 87 p 1

[Article by Qu Haifang [4234 3189 2387]: "A Rising Force in Financial Structural Reform: The Shijiazhuang Trust and Investment Company of the Industrial and Commercial Bank of China Vigorously Gathers Social Funds"]

[Text] Editorial note: The Shijiazhuang Trust and Investment Company utilizes modern financial arrangements--trust operations and a variety of skillful fund raising measures to raise and regulate funds in society. It not only satisfies the needs of economic development but also lends its support to enterprise productions and helps enterprises and society as a whole attain better economic results. Its sets an example for others during the present financial structure reforms.

The Shijiazhuang Trust and Investment Company of the Industrial and Commercial Bank of China is the rising force to be reckoned with during financial structural reforms. It has shown great vitality: since last year, acting in a fiduciary capacity, it has extended 140 million yuan in loans, arranged financial leases valued at 24.79 million yuan, and issued financial bonds worth 8.9 million yuan. It has expanded its operations and issuer of letters of credit, and it tops the province as the most profitable institution, turning over 4.5 million yuan in profit taxes.

This company is a newly established institution; the creation of trusts is a relatively new form of financial arrangement. Through advertisements, the trust company quickly attracts much attention; it actively solicits ideas from the client units; it emphasizes building a good reputation and is persuasive in encouraging clients to extend more loans via the company; and it conducts thorough investigations into the financial situations of some of the participating units and spends extra effort on those units with idle funds. The city's Labor and Services Company used to extend short-term loans to its subordinate units directly, but often had difficulty recovering loans; since the trust company took over the management of its 33 loan accounts, totaling over 1 million yuan, the loans generally have been repaid on time. Not only is the client unit satisfied but it also helps the borrowing units expand production. Up to February of this year, acting as the agent, the trust company lent out 137.93 million yuan: this represents a 67.3 percent increase over the same period last year.

The company always insists on quick returns on its investments. So far, it has completed 49 separate leasing arrangements involving 109 leased items worth 24.79 million yuan, giving much impetus to production expansion. When the riveting and welding plant of the city's Hongqi Boiler Factory was completed, the hoisting capacity of the original crane was inadequate. To solve this problem, the trust company purchased a twin-beam crane and leased it to the factory. This gave the small enterprise a needed boost, and will eventually increase its production by 700,000 yuan and increase profit tax by more than 200,000 yuan. In promoting lateral economic ties, the trust company vigorously supports the "leader" plants in the hope that they in turn will enliven the other enterprises: to finance the expansion of the Changzheng Shoe Factory, the trust company has set up six separate equipment-leasing arrangements for the factory at a value of 5.4 million yuan and helped the factory transform its tennis shoe manufacturing technology. This will increase the factory's annual production by 2.76 million yuan and increase profits by 1.05 million yuan. Because the "leader" plants are more productive, the problem of individual enterprises within the integrated body being "underfed" is also resolved.

The trust company also made arrangements for the issuance of bonds worth 8.9 million yuan, issued letters of credit worth over 20 million yuan on behalf of various enterprises, acted as agent to collect and pay a total of 2.7 million in 720 separate transactions, and extended 22 million yuan in short-term loans to finance the expansion of production.

12986/12951
CSO: 4006/703

ZHU RONGJI ADDRESSES MANAGEMENT SEMINAR IN TIANJIN

OW021410 Beijing XINHUA in English 1358 GMT 2 Jul 87

[Text] Tianjin, July 2 (XINHUA)--China approved 516 foreign-funded enterprises in the first five months of this year, more than during the same period in 1986, Zhu Rongji, vice minister of the State Economic Commission, said at a seminar here today.

From January to May, foreign investment amounted to 517 million U.S. dollars, also more than in the first five months of 1986.

By the end of May, a total of 8,332 foreign-funded enterprises, involving a foreign investment of 19.14 billion U.S. dollars, had been approved in China.

The majority of the 3,120 enterprises, which went into operation before the end of 1986, have produced benefits.

In Tianjin, 26 foreign-funded industrial enterprises have an average profit rate of 25 percent and an investment recovery rate of 32.4 percent.

A U.S. consultant company investigated 70 foreign-funded enterprises in China and found that 94 percent of them reached their profit goal and two-thirds had balanced hard currency income and expenditure, with some having a surplus.

It concluded that foreign investment in China has gone from the experimental stage to building a long-term foothold.

Zhu announced that his commission has set up an administration to help foreign-funded enterprises.

The seminar on foreign-funded enterprise management, which opened today, will focus on the better use of foreign investment.

/8309

CSO: 4020/236

INVESTMENT CLIMATE ANALYZED

Taiyuan JISHU JINGJI YU GUANLI YANJIU [RESEARCH ON THE ECONOMICS AND MANAGEMENT OF TECHNOLOGY] in Chinese No 1, 87 p 14-19

[Article by Li Boxi [2621 3124 3305]: "Prerequisites for Improving the Investment Climate in China"]

[Text] Since China adopted the policies of domestic economic invigoration and opening to the outside world in 1979, it has made much progress in absorbing foreign capital to finance Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures, and wholly foreign-owned enterprises. These enterprises, most of them in open coastal cities, have proved instrumental in expediting China's four modernizations.

By late 1985, China had formally signed 2,343 contracts with foreign investors to build equity joint ventures, worth \$3,412,000,000 in total investments, of which \$1,008,000,000 had actually been used; 3,823 contractual joint ventures (or projects), worth \$8.15 billion in total investments, of which \$1,809,000,000 had actually been used; and 120 wholly foreign-owned enterprises, worth \$517 million in total investments, of which \$111 million had actually been used. Between them, the three categories accounted for 6,286 enterprises, worth \$12,079,000,000 in total investments, of which \$2,928,000,000 have actually been used.

Enterprises of foreign investment have done fairly well in China mainly for these reasons:

1. China has been implementing its policy of opening to the outside world, an important guarantee of successful Sino-foreign equity joint ventures.
2. The introduction of foreign capital meets the needs of Chinese economic development. At the same time, there is an oversupply of capital on the international financial market desperately searching for investment partners in China. This merging of the objectives of the two sides constitutes a basis for cooperation.
3. In line with the development of the economy and the progress of economic structural reform, China has adjusted and relaxed its policy at an opportune moment to attract foreign investors. For instance, on 11 October 1986 it

promulgated the "Provisions of the State Council for the Encouragement of Foreign Investment." Various open coastal cities have also drawn up a number of preferential measures in light of local conditions to attract foreign capital.

4. China is in the process of gradually enacting and perfecting investment-related laws and regulations to give legal protection to the establishment of enterprises with foreign investment and their business activities as well as the legitimate rights and interests of foreign investors.

5. Open coastal cities and other localities concerned have worked hard to improve their infrastructure and social conditions to meet the demand of the establishment and operations of enterprises with foreign investment.

6. The success of all kinds of enterprises with foreign investment has benefited both the Chinese and foreign parties. This helped improve the understanding of foreign investors of China's conditions and its policy of opening to the outside world and intensified the determination and confidence of yet more investors to invest in China. The steady progress of enterprises with foreign investment in China over the past several years is the best testimony to the above.

Despite these solid achievements, foreign capital still falls far short of economic development needs. The proportion of funds that was actually spent was quite small in the earlier period, which suggests that although contracts were signed, progress has been slow. Some projects experienced long delays in just getting off the ground. In most cases, the problem was the absence of right conditions or changes in the conditions on which the contract was based.

The direction of investment is not ideal. Judging from the structure of total foreign investments from 1979 through 1984, most enterprises with foreign investment were non-production enterprises, which accounted for 72.8 percent of total investments, compared to a small 27.2 percent for production enterprises. Non-production enterprises mainly comprised hotels and buildings. Among production enterprises, capital-intensive and labor-intensive ones made up 63 and 26.2 percent, respectively, while technology-intensive ones constituted the smallest share, just 10.8 percent. Thus the goal of importing technology as well as foreign capital remains unfulfilled.

Many problems have to be studied further and resolved if we are to continue to improve the investment climate.

1. The establishment of a development strategy for open coastal cities and special economic zones [SEZ's] is an important basis for improving the investment climate.

A development strategy is a concise statement of development objectives and the steps, policies, measures, and approaches required to translate the objectives into fact. It is comprehensive planning aimed at seizing the initiative to influence the whole situation on a long-term basis. Clearly it makes corresponding demands on the improvement of the investment climate.

The development strategy and development plan of China's open coastal cities took shape over a period of time. It is a dynamic changing process. In 1980, Shenzhen was most concerned to solve its unemployment problem, revive the local economy, and stabilize social order along the border. It was also influenced by the "export-processing-zone" model overseas. In the process it neglected to develop internal economic links. Based on the instructions of the CPC Central Committee and through experimentation in the Sixth 5-Year Plan, they have put forward an export-oriented development strategy focusing on advanced industries, emphasizing trade and industry equally, and combining trade, industry, and technology. The goal is a comprehensive SEZ with highly developed material and spiritual civilizations.

It is not the purpose of this article to evaluate the development strategies of the various open cities. What has to be made clear here is that the development strategy of a coastal city makes corresponding demands on its investment climate. Different development plans have widely different demands on the infrastructure, investment direction, and market environment. Setting forth a clear development strategy itself is an essential aspect of the investment climate.

Following experimentation and practice in the Sixth 5-Year Plan, all open coastal cities have made fairly detailed studies of their development strategies and exchanged ideas among themselves. The next step is to examine their plans on a comprehensive basis and coordinate them so that they fit in with overall national development requirements. This is important for improving the investment climate.

2. The infrastructure and scientific, technical, and social conditions are an important guarantee of the realization of investment projects.

It is fundamentally impossible to introduce foreign capital, import advanced technology, run modern factories, and modernize services without an infrastructure, which includes the supply of electricity, water, and energy, as well as good transportation, posts, and telecommunications, particularly international communications. All of that is indispensable if we are to attract foreign capital. To provide a positive investment climate in this aspect, all open coastal cities have put forth tremendous efforts. While the situation has improved on the whole, it still falls short of what is needed, for a variety of reasons. For example, there is the problem of funding. Land development and the buildup of the urban infrastructure, including the seven components of infrastructure and ground leveling, which are necessary for creating a good investment climate, absorbed 40 percent of all capital construction funds in some coastal cities during 1980-1985. Because of the huge outlays involved and long recoupment period, foreign investors are usually reluctant to invest in this area. China is working very hard right now to solve the funding problem. (It may raise funds internally or borrow abroad.) The establishment of development zones must be subject to close analysis. Given the needs of development, there is a case for building new zones, but we must decide whether there are enough human, material, and financial resources to meet their infrastructural requirements.

A good way to ensure a smooth transition for Sino-foreign equity joint ventures, therefore, is to make full use of the production base of existing enterprises and join forces to transform old enterprises. The Shanghai Yichu Motorcycle Company, Ltd, which grew out of the Shanghai Motorcycle Plant, formally became a joint venture on 1 January 1985 and achieved remarkable results within 1 year, boosting its industrial output value, profit taxes, and productivity by 37, 50, and 40 percent, respectively, in 1985 over 1984. It also balanced its foreign exchange. There are other similar examples.

Compared to the rest of the nation, open cities enjoy a relatively high scientific and technical standard and have the expertise to import technology. The problem now is to provide training to personnel to help them adapt to the new conditions and improve their technical caliber and managerial expertise, emphasizing, in particular, the training of specialists. Most coastal cities are equipped to handle these tasks, but they are not taking them seriously enough. Many Chinese enterprises today have the required skilled personnel. What we should do is to bring about the reasonable circulation of qualified personnel. As part of their preferential treatment, joint ventures should be provided with outstanding personnel.

As we import foreign capital, technology, and advanced managerial expertise, a value system different from our own will also find its way here. The difference in wages between joint ventures and domestic enterprises will lead to new distribution problems. The quality of the labor force should be improved continuously to match the wage level, but the advantage of low-cost labor must be maintained. Low-cost labor is one element making up China's favorable investment climate. It should be pointed out there is a danger we may lose this advantage, so we should be on our guard.

Sino-foreign equity joint ventures do not exist in a vacuum. They must interact with other enterprises and society as a whole. In making plans for joint ventures, we must consider their relations with other related industries and their mutual adaptability. There have been cases in the past when the technology and equipment of some enterprises were not suited to local conditions. Since it was difficult to make use of local conditions, there was no choice but to build small and self-sufficient plants. This is something we should watch out for.

"The Provisions of the State Council for the Encouragement of Foreign Investment," promulgated on 11 October 1986, grants special preferential treatment to foreign investors which provide advanced technology, develop new products, and upgrade and replace old products in order to increase foreign exchange generated by exports or for import substitution. This fully meets China's strategic demand that science and technology be taken seriously. It also demonstrates China's effort to create an even better investment climate for technologically advanced enterprises.

3. An important condition for the successful absorption of foreign capital is to pinpoint a correct investment focus.

Since China opened itself to the outside world, the pertinent departments and localities have published lists of projects regularly and otherwise to which

they wanted to attract foreign capital. As the importation of foreign capital develops apace, it is no longer enough for the localities and agencies to draw up their own project lists separately. It is now imperative that the state plan comprehensively, based on overall needs, and publish at regular and irregular intervals lists of projects including those which the state encourages foreign investors to go into, which are restricted, and which are prohibited. The state should also balance the industries, both internally and against one another, balance the various forms of foreign capital use, balance the use of foreign capital with the import of technology, and balance domestic with foreign capital. A special agency should be put in charge of centralized management to guide foreign investors and steer them in the right direction so that the importation of foreign capital will proceed smoothly. China's economy is in a transitional stage from command to guidance planning and from direct to indirect control. At a time when market mechanisms are less than perfect, macroeconomic guidance is crucial.

Many developing nations define clearly the focus and thrust of foreign capital absorption, depending on the actual needs of the stage of economic development they are in at a certain point in time. Singapore is one of the countries that have put foreign capital to very good use. In the 1960's, it encouraged foreign businessmen to invest in labor-intensive industries producing consumer goods in order to solve its serious unemployment problem and end its over-dependence on imported consumer goods. In the 1970's, it steered foreign capital toward capital-intensive industries, targeting in particular oil refining, shipbuilding, and other manufacturing industries. In the 1980's, its thrust of investment has been to further develop capital- and technology-intensive industries using advanced technology and processes. India, South Korea, and Taiwan Province all went through similar stages in their absorption of foreign capital. China's focus and direction in foreign capital use are becoming clearer. Witness, for instance, the "Provisions of the State Council for the Encouragement of Foreign Investment" promulgated on 11 October 1986. Still, we should put forward concrete demands on investment direction from the perspective of the rationalization of the industrial structure.

4. By studying the trends in industrial structure, we would be better able to determine the investment mix and identify the focus of foreign capital absorption.

China's projected gross national product [GNP] per capita by the year 2000 is about \$950. In other words, during the whole projection period from 1980 through 2000, China will be in a transitional stage from low income to middle income. The experience of economic development in many nations around the world shows that this transitional period is a time of marked change in industrial structure and of accelerated industrialization. Our projections make it clear that to quadruple the gross value of industrial and agricultural output by the end of the century, we cannot depend on proportional growth in the existing structure. We need changes in the industrial structure.

Between the industrial structure and consumption structure is a relationship of interaction and coordination; they cannot be examined in isolation from each other. The long-term consumption structure has a notable conditioning effect on the industrial structure. One consumption plan may guide the

industrial structure in a direction favorable to the exploitation of national strength, another may steer it in a direction which would put the nation at a distinct disadvantage. As a result, an important aspect of long- and medium-range planning is the rationalization and adjustment of the consumption structure.

In projecting China's economic structure in the year 2000 and in designing the macroeconomic model necessary for turning projections into reality, we considered all such major economic structures as the industrial structure, investment structure, consumption structure, and distribution structure as components of a complex economic system, noted the effects on them of changes in the state of the economy, and examined the interconnections and interactions between the various structures. The consumption structure was also studied and tested as a major objective of long-term economic development. Specifically, we took as our starting point one of the projection plans for the consumption structure for the year 2000. First we conducted tests to satisfy ourselves as to the internal logic of the plan. Then we worked out the optimal locus for the development of current major economic structures into future structures. Next we used the method of comprehensive balance to determine the supply-demand relations of various categories of products. In the comprehensive balance annual model, we strived to realize the highest GNP in accordance with the demands of the long-range structure and optimal development locus and under these conditions--balance in materials, market, international payments, labor and employment, budgetary revenues and expenditures, and overall credit as well as constraints imposed by national strength, resources, and the environment.

According to projection results, these sectors in the national economy are expected to grow faster than the average economic growth rate: electricity, building materials, construction, posts and telecommunications (all part of the infrastructure); food, sewing, paper-making (all light industries with a high output rate); machinery, chemical industry, and commercial services. These sectors are expected to grow at a below-average rate: agriculture, oil, coal, etc. To sum up, the infrastructure, manufacturing industries, and services will be the pacesetters, while agriculture will be relatively sluggish. This dovetails with the experience of industrialization in most nations. Such projections should be made to fit in with the nation's long-range plan.

Industrial structure forecasting is adjusted annually. The corresponding investment structure also changes yearly. After considering the principles of the use and deployment of domestic and foreign funds, we will have a fairly clear picture of the focus in foreign capital use. But doing this on the national scale alone is not enough. All open coastal cities should also project changes in the industrial structure so as to determine the industrial structure year after year as well as changes in the investment structure.

5. An important prerequisite for foreign capital use is to step up project preparatory work, carry out feasibility studies in earnest, and achieve scientific investment decision-making.

Insisting on quality feasibility studies and on examination and approval is a basic procedure that we must follow in using foreign capital. In carrying out feasibility studies, we must closely investigate international market demands and project future trends. We must ascertain the feasibility of selling the products on the foreign market and balancing foreign exchange. When the products are destined for the domestic market, domestic market demands and trends should be forecast. At times the prices of both domestic and foreign raw materials, energy, and supplementary materials should also be forecast. It is the responsibility of the agencies in charge of project examination and approval to conduct project evaluation and verification.

Turning to the introduction of scientific decision-making in foreign investment, there should be uniform regulations specifying the contents and depth of feasibility studies. Moreover, the procedure of examination and approval and evaluation standards should also be systematized to ensure that projects produce results and meet the needs of national development.

The evaluation of the economic results of a project to a large extent determines the outcome of the decision-making process of an investment, particularly when the project in question is of a production nature. But since conditions vary from country to country and their policy-makers find themselves in different positions and have different economic objectives, there is no one single view of economic results or a single investment evaluation method. We usually call the evaluation method commonly used in the West financial evaluation. As far as Western market economies are concerned, provided the forecasting is accurate, financial evaluation is a way to realize the objective of maximizing the return on a fixed amount of capital. Given China's imperfect market and irrational price structure at this point in time, it would be highly one-sided to rely on financial evaluation as the only basis for investment decision-making. For one thing, the limitations inherent in financial evaluation mean that evaluation results do not reflect the social results of a project. Financial evaluation will only encourage enterprises to pursue immediate personal interests. Secondly, because of price distortions, currency results worked out using current prices do not reflect the genuine results of a project.

It is proposed that a combination of financial and economic evaluations be used with regard to foreign-investment projects. Only if both sets of evaluation results are sound can a project be considered really feasible. Hence we need to keep abreast of price movements on both the domestic and foreign markets, opportunity costs, and accounting prices to ensure that a project has both macroeconomic and microeconomic results.

6. An important measure to ensure the functioning of foreign capital is to improve foreign investment management.

China's economic management system, currently in the midst of reform, must rise up to the demands of using foreign capital and managing enterprises with foreign investment. A few years ago, too many agencies had a hand in managing enterprises with foreign investment, while few could really solve problems. An excess of agencies involved themselves in examination and approval, but few paid attention to the operations of an enterprise after it went into

production. As economic structural reform gains ground, we should consider the management of foreign capital use and foreign enterprises comprehensively. What is urgently needed at the moment is an authoritative organization to take charge of all aspects of managing Sino-foreign equity joint ventures.

Enterprises with foreign investment have their own characteristics in such areas as ownership system, organizational setup, financial management, and economic associations, and should enjoy greater autonomy in economic management. An enterprise's internal arrangements, including organizational structure, the employment and dismissal of management cadres, spending, fund management, and production plans, should all be determined by its board of directors and its own managerial or business departments, provided no relevant Chinese laws or regulations are violated. The agencies and localities involved should not interfere, but it is their responsibility to help foreign investors sort out their problems, such as raw material supply and obtaining qualified personnel.

Mutual trust and sincere cooperation are the cornerstone of good joint-venture management. Both parties should have a hand in the more important activities and operations, particularly supply and demand. All enterprises with foreign investment should keep their books in China for regular inspection and supervision by management and tax agencies.

We should manage in accordance with the requirements of the plan in order to put an end to import duplication that occurred extensively some time ago. In short, only if we place the foreign capital absorption plan in the context of the national plan and only if we make foreign capital absorption and the management of enterprises with foreign investment part of the overall economic management system can foreign capital and these enterprises play a positive role in the national economy.

7. Balancing their foreign exchange is absolutely necessary if enterprises with foreign investment are to grow.

Among foreign-funded enterprises now in business in China, the failure to balance foreign exchange is one of the more serious problems. This is because in the mix of foreign enterprises, most are geared toward selling to the domestic market and few are export-oriented. In examining and approving projects in the future, we should regard foreign exchange balance and foreign exchange compensation as major criteria. The export ratio or foreign exchange compensation specified in a contract must be strictly enforced. This demands solid market forecasting work.

Under the "Provisions of the State Council for the Encouragement of Foreign Investment" promulgated on 11 October 1986, the state grants special preference to production enterprises whose products are mainly for export and which have a foreign exchange surplus after deducting from their total annual foreign exchange revenues the annual foreign exchange expenditures incurred in production and operations and the foreign exchange needed for the remittance abroad of the profits earned by foreign investors. This is yet another move by China to improve the investment climate.

8. Improving legislation and adjusting policy hold the key to ensuring steady progress in the absorption of foreign capital.

Since China opened itself to the outside world, the proper agencies have done a lot of work in legislation, formulating and enacting a series of important laws and regulations, including the "Law on Chinese-Foreign Joint Ventures," and are working hard to establish a legal system gradually. Laws and policies already published should be revised in the light of new conditions in economic structural reform and in the economy to make them even better.

Policies aimed at improving the investment climate are being substantiated continuously. For example, preferential treatment has been granted to export enterprises and technologically advanced enterprises. In addition, enterprises which can help improve the overall results of the national economy or upgrade China's product mix should also be encouraged with appropriate measures. In brief, legislation and policies are needed to create a good investment climate to spur the continuous absorption of foreign capital.

Points worth noting in trying to understand China's investment climate

The purpose of analyzing the investment climate in China's open coastal cities is to improve it. To understand China's investment climate thoroughly, we must not only look at the present, but also analyze the trends of development. The Sixth 5-Year Plan was an exploratory phase in the attraction of foreign capital. Henceforth we must enter a new stage of steady development.

1. Improving the investment climate is necessary for reform and development in China.

China will firmly adhere to the principle of reform and opening to the outside world. To achieve this principle, it is necessary to improve the investment climate for both foreign and domestic capital.

As structural reform becomes more and more thoroughgoing, China's traditional investment management system, where the government assumes the predominant role, has begun to change. The role of major investor is now being played by different kinds of institutions, with an increasing impact on the macroeconomic pattern of fixed asset investment. This is the first point to bear in mind when one considers the investment management system. In the future, we should draw up different investment areas, focus the interest of all major investors on macroeconomic objectives, and establish an investment management system where major investors fit in with investment objectives. At present, enterprises still play an insignificant role in investment activities and have limited power. Reformers should gradually transfer to enterprises the power to make investments in production, taking into account such factors as their scale of operations and industry. The investment focuses of the central government, local authorities, and enterprises may be distinguished from one another as follows:

The focus of investment of the central government should be interregional, unprofitable or marginally profitable social infrastructural projects, energy, transportation, communications, posts and telecommunications, certain raw

materials and new industries, science, technology, education, and public health.

The focus of local authorities consists of such nonproduction projects as those in the urban and rural infrastructure, education, social welfare, and the tertiary industry.

In principle, the central and local governments will no longer be responsible for investing in ordinary production enterprises. Decision-making power in production investment should mostly be delegated to enterprises over time. The latter should rely on their own resources to expand production and enhance their competitiveness.

This kind of investment system not only promotes infrastructural construction, but also effects the change from direct to indirect control, a change of profound significance which will stimulate the development of a commodity market, including means of production, a labor market, a capital market, and a foreign exchange market. And the formation and growth of a market system is a basic requirement for improving the investment climate.

2. Investing in China is called for by the development strategy of some nations.

Attracting foreign capital is a principle in China's development strategy. It is also part of China's overall development strategy. From the perspective of some other nations, however, investing in China is necessary to their development. The interests of foreign investors reflect the interests of these nations. Improving China's investment environment involves both China and foreign countries, and while China plays the bigger role, coordination by other nations is also very important. There are some myopic practices that generate immediate profits at the expense of the interests of the nation where the investment is made. They damage the expansion of foreign investment in China. It must be appreciated that improving China's investment climate benefits not only China but all the nations concerned. Take Japan, for instance. By concentrating its manufactured products on export, Japan has run up a huge balance of payments surplus, which has led to international trade frictions and intensified Japan's interest in investing abroad. Some nations too have noticed the reasons behind the high quality and competitiveness of Japanese manufactured products, such as the importation of advanced electronics technology, the introduction of robots, rigorous quality control, backdrop that the

and flexible ways of doing business. It is against this governments and industrialists of interested nations all hope to attract Japanese capital, which also brings in advanced technology and managerial expertise. Of the 50 states in the U.S., a highly developed nation, 21 have set up liaison offices in Tokyo.

3. Importing foreign capital is an important vehicle for accelerating China's economic development.

China imports foreign capital in order to expedite its modernization. Whether or not the importation of foreign capital will succeed depends on its ability

to use foreign capital to produce the optimal economic results. It requires efforts on the part of both China and foreigners to improve such results.

In the study "China in the Year 2000", experts examine the scale of China's importation of foreign capital as well as its timing and forms, and study it in conjunction with China's overall international balance of payments. They conclude that in the short run, conditions are favorable for the proper importation of large amounts of foreign capital. In the long run, how much capital China should absorb will depend on how much foreign exchange it can earn from exports. In the Seventh and Eighth 5-Year Plans, therefore, we must lay the groundwork for balancing foreign exchange in the Ninth 5-Year Plan and beyond. The most critical thing is to pay attention to the overall macroeconomic results of foreign investment, combine the absorption of foreign capital with the importation of technology, and increase the competitiveness of Chinese exports and its capacity to repay principal and interest.

In a nutshell, China's investment climate, particularly the investment climate in open coastal cities, will continue to improve in the future. Not only is this a set Chinese policy, but it is also a requirement of development and reform in China and conforms with world trends.

The attraction of foreign capital has moved beyond the exploratory phase to a new stage of steady development.

12581

CSO: 4006/584

BOC CHANGCHUN BRANCH HELPS ENTERPRISES EARN FOREIGN EXCHANGE

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 3, 4 Mar 87 p 23

[Unattributed Article: "The Changchun Branch of the Bank of China Is Making Every Effort To Help Foreign Trade Enterprises Earn Foreign Exchange Through Exporting"]

[Text] Earning more foreign exchange through exporting and by importing advanced technology and equipment are major ways to speed up China's socialist modernization. In 1986, the Jilin branch of the Bank of China [BOC] focused its credit work on ensuring by every possible means the funds needed to help earn foreign exchange through exporting, enabling unprecedentedly favorable conditions for foreign trade to appear throughout Jilin Province, and records to be set for the three targets of foreign trade procurement, exports, and fund turnover. From January to September 1986, our procurement reached 1,416,460,000 yuan, or a 77.85-percent increase over the same period in 1985; our exports reached \$378.96 million, or a 43-percent increase over the same period in 1985; and our circulating funds turned over 3.71 times, or 0.46 times more and 14.15 percent faster than in the same period in 1985.

We accumulated and ensured the funds needed to earn foreign exchange through exporting. In 1986, Jilin planned foreign trade exports of \$442.17 million, expected them to reach \$500 million, and needed procurement funds of almost 2 billion yuan, or 85 percent more than in 1985. Although the BOC headquarters had approved a 119 million-yuan increase over 1985 in the Changchun branch circulating funds loan quota, funds were still tight and, in the peak procurement period in particular, were even tighter. Confronted with this situation, we made great efforts in several areas, and went all out to ensure that funds were supplied. On one hand, we loaned the entire increased new loan quota of the circulating fund to foreign trade enterprises; on the other, we used for export procurement all of the 36 million yuan derived from clearing up and recalling bad loans and irrational funds from foreign trade enterprises. When loan funds were tight in the peak period, we promptly reported the situation to the BOC headquarters. They approved temporary above-plan loans of 100 million

yuan, all of which we also used to earn foreign exchange through exporting. From January to September 1986, we readjusted the loan quotas of the various branches under our jurisdiction more than 20 times, supplementing more than 30 million yuan of procurement needs. In addition, we also divided foreign trade companies into three classes--small, medium, and large--according to the size of their business, stipulating loan limits of 1, 3, and 6 million yuan, respectively. Enterprises that exceeded the limits could agree to repay ahead of time their loans that were not yet due, in order to prepare for urgent needs. Through taking the preceding steps, we raised the proportion of all circulating fund loans accounted for by loans to foreign trade enterprises from 86 percent at the beginning of 1986 to 92 percent, ensuring the funds needed to earn foreign exchange through exporting.

We did a good job of providing guaranteed loans and advance-purchase fixed-amount loans, supporting the production of products for export. In order to increase the supply of export goods and ensure that enterprises could fulfill export agreements, we initiated guaranteed loans. In transacting them, we insisted on seven conditions, such as that their targets must be rational, they must be used appropriately, they must be used for export, they must have economic guarantees, they must be used for products that live up to certain production standards, they must be used for temporary needs, and those that get them must open special savings and loan accounts at the BOC. In addition, we insisted that they be repayable when due. By the end of September 1986, 48 million yuan of guaranteed loans had been granted to 39 industrial production enterprises, supporting production of more than 40 export products, such as paper, clothing, and line materials. Ginseng and mountain herbs are two major export products of Jilin Province. In order to increase their production, we granted advance-purchase fixed-amount loans for exporting these agricultural sideline products. They were granted to foreign trade companies that directly procured the products. The varieties to be purchased in advance had to be agricultural sideline specialties that had a ready export market, could earn reasonable amounts of foreign exchange, and were scarce. Foreign trade departments signed contracts with production departments for the products to be purchased in advance, and upon prior confirmation by higher level foreign trade departments, were ensured of receiving the goods on schedule. In 1986, 9.73 million yuan of advance-purchase fixed-amount loans were granted, of which 4 million yuan were for ginseng and 5.73 million yuan were for mountain herbs. In addition, 7.16 million yuan of these loans was granted in 1985, 6.89 million yuan of which was for ginseng. This was combined with special first-class loans to build 12 ginseng export bases and develop 1,047,600 sq m of ginseng acreage.

In 1985, ginseng exports rose 50 tons and earned \$2 million in foreign exchange. The supply of mountain herbs was stabilized, ensuring procurement of 1,800 tons for foreign trade and earning an estimated \$1.08 million in foreign exchange.

We actively and on our own initiative helped to ensure that foreign trade departments were supplied with export goods. Through such methods as holding meetings, investigating, and researching, we helped to ensure that foreign trade departments were supplied with more than 30 million yuan of export goods, guaranteeing their export needs. For instance, the phenomenon of competitive buying forcing up ginseng prices has been quite serious in the past 2 years, foreign trade departments have been unable to fulfill their procurement plans, and this has affected their ability to earn foreign exchange through exporting. In September 1986, we seized the opportune moment shortly before the ginseng harvest, took the initiative to hold discussions with foreign trade departments on paying ginseng export bases for delivering ginseng, and settled the issues of using ginseng to earn foreign exchange and repay loans. Statistics show that 60 tons of dried ginseng were sold to foreign trade departments, procurement amounted to 10 million yuan, or 25 percent of the 1986 procurement plan for that variety, \$3 million yuan of foreign exchange was earned through exporting, and all loans plus interest were repaid to banks when due.

We helped foreign trade enterprises to set up joint factories and develop lateral economic coalitions. In line with the development in depth of economic reform and the continued appearance of various forms of economic coalitions, some foreign trade enterprises also developed lateral economic alliances with the commercial, agricultural, and industrial sectors. We actively supported this on the basis of our investigations and research. In 1986, we granted 7 million yuan of circulating fund loans to four joint ventures, such as the Qian'an Castor Oil Plant, the Siping Joint Meat Plant, the Baicheng East Wind Joint Agricultural Trading Co, and the Native Livestock Co in the Baicheng region. From January to September 1986, these four enterprises produced and procured for export four products: castor oil, beef cuts, livestock, and licorice root. They were all exported, earning \$2.57 million in foreign exchange and realizing over 1.5 million yuan in taxes and profits for the foreign trade enterprises.

12267/12223
CSO: 4006/557

TARIFF CHARGES ADJUSTED ON 12 COMMODITIES

OW060614 Beijing XINHUA in English 0548 GMT 6 Jul 87

[Text] Beijing (CEI)--China has just readjusted tariff rates on 12 categories of imported goods after a decision by the State Council's Customs Tariff Commission.

Tax rates on six commodities, including meat and bone powder, copper sulfate, nylon-66 salt, and scrap copper, lead and zinc, were reduced, while those on methacrylic acid and its salts and esters, marking sheets, mixed spices, color film, electronic watches and parts, and zippers and parts went up.

The following is a table of the new tariff rates:

Goods	Rates	
	<u>Lowest</u>	<u>Ordinary</u>
Meat and bone powder	6 percent	11 percent
Copper sulfate	20 percent	30 percent
Methacrylic acid/ salts and esters	60 percent	80 percent
Nylon-66 salt	15 percent	20 percent
Marking sheets	60 percent	80 percent
Mixed spices	100 percent	130 percent
Color film	70 percent	90 percent
Scrap copper	6 percent	11 percent
Scrap lead	15 percent	20 percent
Unforged folled zinc and scrap zinc	15 percent	20 percent
Magnetic or optical readers and machines for recording data to data-recorders in the form of code	30 percent	40 percent
Electronic watches	80 percent	100 percent
Electronic watch parts	50 percent	70 percent
Zippers and parts	100 percent	130 percent

/8309

CSO: 4020/236

EXPERT ON POLICY ON FOREIGN-FUNDED ENTERPRISES

OW051453 Beijing XINHUA in English 1340 GMT 5 Jul 87

[Text] Beijing, July 5 (XINHUA)--A leading Chinese expert has reaffirmed the policy of allowing foreign-funded enterprises in China to independently dispose of their hard currency earnings, the overseas edition of the PEOPLE'S DAILY reported today.

Nevertheless, said Chief Economist Zhu Yixin of the State Administration of Exchange Control, they must open deposit accounts in designated banks, which cover the remittance out of China of their after-tax earnings.

Foreign exchange control offices have the right to supervise their activities related to foreign exchange income and expenditure, Zhu said.

To help foreign-funded enterprises balance their hard currency income and expenditure, Zhu said, China has loosened its foreign exchange control in recent years.

Such enterprises are allowed to borrow money to import materials or equipment needed in production from banks either in or outside China, and they are only required to report this to the administration for the record afterwards.

Foreign-funded enterprises may sell in China such products as those which the country badly needs or has to import over a long time for hard currency, according to international prices, he added.

With the approval of its Chinese partner, a foreign-funded enterprise engaging in offshore oil drilling may deposit its share of the funds for the joint prospecting or development and production in a bank outside China, Zhu said.

It may also sell its share of the resultant oil products in or outside China for hard currency, and remit the after-tax earnings out of China.

/8309

CSO: 4020/236

IMPROVING QUALITY OF TEXTILE EXPORTS URGED

[Editorial Report] Beijing GUOJI MAOYI WENTI in Chinese No 2, 1987 publishes on pp 50-52,49 an article by Li Shi [2621 6108] entitled "Increasing Medium, High-grade Clothing Exports Is the Key to Expanding China's Textile Exports." The article notes that China has captured only a small share of the world textile market despite its increased production of textile exports. It attributes this to the inferior quality of Chinese textile exports, the current composition of these exports i.e. mainly raw materials and semi-finished products, and China's unsophisticated manufacturing capability.

To be more competitive in the world textile market and therefore enhance its foreign exchange earning ability, China, the author suggests, must export less raw and roughly processed materials and export more finished and highly refined products.

Evaluating China's potential in the world textile market, author notes that although China has no control over export volume limitations imposed by the protectionist measures of foreign countries, it stands to significantly increase its foreign exchange earnings from textiles if it pays more attention to their quality and focusses more on exporting finished products, especially clothing goods.

Looking at the current state of China's clothing export industry, the author suggests several measures for improving the quality of its products. First, he emphasizes the need to improve the quality of fabrics used. Pointing out that the fabrics currently used in China are "drab and unfashionable" and difficult to maintain, he encourages importing foreign technological equipment to upgrade production facilities and thus enable China to produce more fashionable, colorfast, anti-static, and shrink-resistant fabrics. Next, he underlines the importance of developing China's production of accessory items such as buttons and zippers. Observing that foreign manufacturers attach great importance to the role and quality of accessory items, he emphasizes that Chinese clothing exports cannot hope to become competitive unless they upgrade the quality of these items. Finally, he calls for the creation of a coordinated clothing export production system whereby all the industries involved in the production of clothing exports work closely together to ensure maximum efficiency and market responsiveness.

CSO: 4006/813

BRIEFS

EXPORT OF ELECTRONICS--Jiangsu has made significant progress in exporting electronic products, making more than \$100 million in foreign exchange from these exports for the first time in 1986. This was a 40-percent increase over 1985, and an all-time high. Jiangsu exported more than 150 kinds of electronic products in 1986. We have begun to export certain high-tech products, such as numerically controlled machine tools and machinery, radar, optical microscopes, directional antenna satellite equipment, and communications equipment. In the past few years, we have penetrated international markets with household electronic products made with imported equipment, such as black and white and color television sets, radios and tape recorders, and refrigerators. In 1987, Jiangsu has decided to focus on exporting 10 popular products: machine tools, universal basic components, seeing and hearing equipment, electric fans, electronic components, bicycles and spare parts, automobile parts, household hardware, hand tools, and measuring and cutting tools. We will also organize close cooperation between export enterprise consortiums and industries. [Text] [Nanjing XINHUA RIBAO in Chinese 31 Mar 87 p 2] 12267/12223

CSO: 4006/557

POPULATION OF 14 OPEN COASTAL CITIES LISTED

OW060820 Beijing XINHUA in English 0728 GMT 6 Jul 87

[Text] Beijing, July 7 [date as received] (XINHUA)--China issued today the populations of its 14 open coastal cities by the end of 1986. The cities were designated by the central government to open to foreign investment, technology and trade.

Names of cities	Total population	Rural population
Tianjin	5,459,000	4,244,000
Shanghai	7,102,000	6,987,000
Dalian	1,682,000	1,422,000
Qinhuangdao	448,000	320,000
Yantai	734,000	355,000
Qingdao	1,273,000	1,177,000
Lianyungang	472,000	294,000
Nantong	420,000	293,000
Ningbo	1,033,000	508,000
Wenzhou	536,000	376,000
Fuzhou	1,205,000	806,000
Guangzhou	3,359,000	2,650,000
Zhanjiang	947,000	352,000
Beihai	180,000	95,000

The above figures do not include the populations of the counties under the jurisdiction of the cities.

/8309

CSO: 4020/236

DOUBTS ABOUT POPULARIZATION OF LABOR CONTRACT SYSTEM

Tianjin ZHONGQINGNIAN JINGJI LUNTAN [YOUNG ECONOMISTS FORUM] in Chinese No 1, 10 Jan 87 pp 74-76

[Article by Xu Haibo [1776 3189 3134]: "Popularization of the Labor Contract System Not Advisable"]

[Text] 1. There is no doubt in the mind of government policy-making agencies that the labor contract system should be the wave of the future as far as labor and employment in Chinese enterprises are concerned. In the long run, however, will the "popularization of the labor contract system" nationwide produce the results that the government agencies expect? Is the labor contract system the best Chinese-style labor and employment system? These questions remain worthy of serious consideration. In my opinion, the labor contract system is not the best among the variety of labor and employment systems that man has devised. Its positive advantages are often offset by its disadvantages. For enterprises in the East, in particular, it is certainly not the best option. Like a streak of bright color on a quietly elegant painting, it jars with the harmony unique to the enterprise management system so strong on personal feelings that has developed in the East. (China is no exception.) To make the labor contract system the predominant labor and employment system in Chinese enterprises will spell no end of trouble for the future.

2. Clearly the primary motive for "popularizing the labor contract system" in Chinese enterprises is to mobilize the production initiative of the vast numbers of workers. Implicit in it is the notion that an unstable labor and employment system necessarily leads to a surge in enthusiasm among workers while a stable labor and employment system has a depressing effect on their initiative. But the experience of other advanced industrialized nations suggests that the establishment of an unstable employment system is not the only effective way to fire worker initiative. In the U.S., aren't workers everywhere slack in work, despite a U.S.-style employment system which generates an even greater sense of "crisis" than the labor contract system? And does not Japan, with its life employment system, produce workers noted for their spectacular enthusiasm for work? To deny categorically the positive significance of a stable labor and employment system and replace it with an unstable system therefore has no basis in theory or in fact and is a rash move.

3. In China's case, it is not the longstanding stable labor and employment system, but the lack of initiative on the part of enterprises that basically accounts for the depressed state of worker initiative. Under the traditional system, Chinese enterprises are "enterprises" without entrepreneurs. The decline of production initiative on the part of workers is but a disastrous effect of this type of pseudo-enterprise. Had there been a sense of competition among Chinese enterprises and had Chinese enterprises assumed responsibility for increasing the worth of their assets, the decline in production initiative would not have been tolerated for years. Consequently, what should be reformed is enterprise initiative. Enterprises should be returned to entrepreneurs. Given genuine enterprises, workers will show a new initiative even without any change in the existing labor and employment system. Without genuine enterprises, not even an unstable labor and employment system will lead to an upsurge in production enthusiasm among workers. It can thus be seen that to implement the labor contract system is to tackle the "effect," not the "cause," a mistake analogous to putting the cart before the horse.

4. Of course, the labor contract system is not totally worthless. An important reason why the stable labor and employment system does not have the desired effects is the absence from Chinese society of an unstable labor and employment system. Japan's life employment system has worked so well because it is not available to workers in small and medium-sized enterprises, who face the constant threat of unemployment. In comparison, the life employment system becomes something everybody longs for. Only when you compare can you differentiate, and only when you differentiate can you tell the pros and cons. Herein lies the secret of success of Japan's life employment system. That is why I do not object to the existence of the labor contract system within certain limits, despite my objection to its extensive application among Chinese enterprises. I also believe that the labor contract system should not be compulsory, but should be an option that enterprises are free to choose. How extensively and intensively the system is adopted should be the result of free choice by China's millions of enterprises. The goal of labor and employment reform in China should be the coexistence of the stable and unstable labor systems.

5. Judging from the experience of the U.S. and European nations, a labor contract system based on the contractual relationship has at least these 10 consequences. First, "interests during the duration of the contract" put immense pressure on management to shape decisions in investment, technological modernization, and profits distribution in such a way as to suit the workers' short-term interests, while sacrificing the enterprise's long-term interests. Witness the fact that U.S. and European enterprises usually pay less attention to long-term development objectives compared to their counterparts in Japan. Second, it breeds the psychology that "what is outside the contract is none of my business." With every worker doing his own thing and being held responsible individually, interpersonal cooperation suffers. What is wanting is a spirit of joint responsibility and coordination. For example, U.S. workers believe that ethical labor is each doing his own job without helping one another. Third, the worker-enterprise relationship becomes a purely contractual relationship, the worker's feelings for the company weakening by

the day. A survey in 1976 shows that most U.S. workers believe the enterprise should be entirely separate from personal life. Most Japanese workers, on the other hand, think that their lives revolve around the enterprise and that the enterprise is more important than, or at least as important as, personal life. Fourth, labor-management disputes have been on the rise, leading to a steep erosion in the mutual trust and close cooperation between workers and management. Data show that there were as many as 34,569 labor-management disputes in the U.S. in 1976, compared to 1,417 in Japan in the same period. Fifth, the national proposal system in enterprises will be a dismal flop unless management "pays" for such proposals with large bonuses. According to 1978 statistics from the Japan Proposal Activities Association, participation rate in the proposal system in U.S. enterprises was only 14 percent, while it was a high 54.2 percent in Japan. The bonus for each proposal averaged Y30,530 in the U.S., compared to Y852 in Japan. Sixth, under the labor contract system, a worker does not know whether he can stay at the enterprise long-term. Thus he often resists technological progress at his plant, trying his best to keep the existing technical level to avoid being made redundant by advancing technology. In 1981, Japanese and West German workers were asked "whom technology benefits." Sixty-two percent of the Japanese replied that technology would benefit both labor and management, while only 0.8 percent of the West German workers thought so. Seventh, in the long run, it will be very difficult to conduct technical training for workers. For instance, Japanese, U.S., and Western European workers were asked, "Do you feel that your work unit is working hard to improve the workers' level of knowledge and skill?" Among Japanese workers, 32.7 percent said they felt so "strongly," compared to 12.1, 16.6, and 5 percent of U.S., West German, and British workers, respectively. Eighth, personal interests are removed from enterprise interests. It becomes only the management's concern to protect enterprise interests. In response to the question, "Does the expansion of worker benefits affect you?" 93.5 percent of Japanese workers answered positively in 1984, compared to just 24.3 percent among West German workers. Ninth, the kind of work initiative unleashed by the contractual relationship has two characteristics. One is compulsory--if you don't do a good job, you will be out of work--and the other, economic--I offer my labor, you contribute money. This is only a "passive" type of initiative, not "active." It is "mercenary," not "rooted in human feelings." It differs entirely, in both effect and morals, from the kind of labor that comes joyfully and spontaneously from the heart. Tenth, if we implement the labor contract system, worker motivation will undergo a complete change: it will be a purely economic motive to maximize personal incomes. His sense of responsibility toward his enterprise and society will correspondingly weaken gradually.

6. It is self-evident whether the ten possible results of the labor contract system will do more harm than good to the progress of enterprise management in China. The crux of the matter is this: Selecting a labor and employment system is not simply a question of making a "profitable choice." It also means making a choice suited to the national psyche and value system. A successful labor and employment system is often one best suited to the national psyche and value system. In evaluating the soundness of a labor and employment system, we should not focus exclusively on the economic results of the evaluation [as published] system, but also examine its ability to satisfy national wishes.

7. In general, the Chinese psychology desires stability and avoids uncertainty and unrest. The Chinese cherish personal relationships and look down on the greedy pursuit of riches. Given these traits, if we rashly adopt an unstable labor and employment system such as the labor contract system, we may either provoke resistance from among the people or have to rely on the "force of the system" to compel the people to change their traditional mentality and value system. We may also cause new, tricky problems which may prove more than enterprise management can cope with. There are two reasons why popular resistance to the labor contract system is so mild (but certainly not nonexistent) at the moment. First, contract workers at many experimental units are not what their name suggests; they are hardly different from permanent workers. Second, the implementation of the labor contract system on a national scale has barely begun and its many potential threats to the people have not been fully "revealed." This fact has influenced public understanding and evaluation of the system.

8. If the individualistic character of U.S. and European workers is not suited to a stable labor and employment system, the spirit and value system of Chinese workers and the social environment do go very well with just such a system. Life (or permanent) employment is not necessarily bad. Nor does it inevitably dampen the initiative of the workers. The key is whether there is a larger social environment which encourages the enterprise to improve itself and whether there is a substantial number of "entrepreneurs" who have the courage to compete. If such a positive environment exists, then life (or long-term) employment would inspire worker initiative as much as a labor contract system does.

9. Accordingly I suggest that the Chinese-style labor and employment system be predominantly life (long-term) employment, particularly at large and medium-sized enterprises. In other words, I propose that China's labor and employment system approximate the Japanese model, rather than the U.S. model. Only by following the Japanese model can we turn workers into masters and give them the right to take part in management. Only thus can we realize the value that the "factory is my family and my pride" and the collective principle that "when the large river runs out of water, the little streams will dry up." And it is this indigenous Eastern management system and management philosophy that will be the engine driving enterprise management in China.

12581
CSO: 4006/519

LABOR OF CONTRACT WORKERS SHOULD NOT BE TREATED AS COMMODITY

Beijing JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY] in Chinese 15 Feb 87 p 7

[Article by Liu Xue [0491 1331]: "Why the Labor of Contract Workers at Socialist State-Owned Enterprises Is Not a Commodity"]

[Text] Some people believe that in a socialist economy, the labor of contract workers at socialist state-owned enterprises is a commodity. They argue that it is through exchange that labor enters social consumption and that the labor relations between the two parties takes the form of a contract. This point is open to question.

To my mind, the labor of contract workers at socialist state-owned enterprises is not a commodity for the following reasons:

First, we should not determine whether labor is a commodity by looking at the labor system. Instead we should look for an answer among social economic conditions because it is not the labor system, but social economic relations, primarily the ownership system of the means of production, which determine whether or not labor is a commodity. In a socialist society where means of production are publicly owned, workers are the masters of means of production.

Second, both the labor system under state allocation and the labor contract system are the tangible expression of the union between workers as masters and means of production. The difference is that under the labor contract system, socialist enterprises and workers can choose one another, which helps bring about the most satisfactory union between workers and means of production. But workers' position as masters and the principle of distribution according to work have not changed.

Furthermore, it is incorrect to conclude that labor is a commodity just because labor enters social consumption through exchange. In a socialist system, what a worker offers his enterprise is labor, not labor force. So the exchange of labor force does not arise. The kind of exchange involved here is one between equal labor for equal compensation. Under a labor contract system, an enterprise and a worker enter into a contract. This contract specifies the form of the exchange of equal labor between the enterprise and the worker, but it does not constitute the basis for turning labor force into

a commodity. The contractual form cannot be totally equated with the buying and selling of a commodity.

Finally, if the labor of contract workers at a socialist state-owned enterprise is a commodity, then it will conflict with the socialist relations of production.

For one thing, it will conflict with the socialist principle of distribution according to work. If the labor contract system turns labor into a commodity, workers should be paid in accordance with the value of labor. This is inconsistent with distribution according to work, under which a portion of output is directly distributed to the worker in the form of compensation for his labor. This portion includes means of subsistence, means of enjoyment, and means of development. As social productive forces develop, the proportion of the last two will increase steadily. Under distribution according to the value of labor, a portion of a worker's output is returned to him in the form of wages. This portion of the output only consists of the means of subsistence necessary for production and reproduction. Excluded from it are means of enjoyment and means of development. Hence distribution according to work no longer operates in this situation.

Second, if the labor of the contract workers of a socialist state-owned enterprise is a commodity, it will conflict with the workers' status as masters and the goals of socialist production. In the production process, the relationship between enterprise and workers will become one between masters and those who are dominated and the workers' status as masters of the socialist enterprise will disappear.

12581

CSO: 4006/519

PAPER ASKS PEASANTS TO HAVE FAITH IN REFORM

OW070843 Nanjing XINHUA RIBAO in Chinese 14 Jun 87 p 1

[Article by XINHUA RIBAO commentator: "Firmly Push Rural Reform Forward"]

[Text] In our reform of the economic structure, we made a breakthrough in rural areas first. The rural reform has created a new situation in our rural economy and our achievements have attracted worldwide attention. The present rural situation is excellent as the reform deepens, policies are stable, and the economy is growing. In the last 2 years, however, grain production in the province did not increase as much as in the first few years of the reform, nor did the peasants' income in some localities; and the difference in rural family incomes widened. A few people have begun to question whether the reform is justified and whether it will cause polarization in rural areas. Since some localities started to experiment with agricultural undertakings of a slightly larger scale, some people regard it as "an end to the system of contracted household responsibilities." They even say: "If such is the case today, why did we introduce the system of contracted household responsibility?"

Complaints are unavoidable in the course of a major reform. We should study the problem, distinguish right from wrong, and unite as one to deepen the reform and promote economic development.

The shift from an extraordinary growth to a steady growth in our rural economy conforms to economic law. In the initial stage of the reform, the long-fettered productive forces, including the material foundation laid over many years and the peasants' great enthusiasm, were suddenly released in a concentrated manner. At that time, the system of contracted household responsibility, implemented throughout the country, soon yielded results and basically solved the problem of feeding and clothing the people in most regions. That was indeed an amazing achievement in a country with 1 billion people, of whom 800 million are peasants. The per-capita income in Jiangsu's rural areas exceeded 300 yuan in 1986. However, such a high growth rate, which was restorative in nature and was achieved under special conditions, could not last forever. At present, our rural areas have entered a new state in which the reform is deepening and the economy is growing steadily. Great vitality remains there. The peasants are worried about policy changes because our current policies are good and cater to their wishes. The more they love something, the more they are afraid of losing it.

The stagnation in grain production is a fact. Among the many causes, the major one is the relatively low benefit of grain growing. For the time being, we still cannot raise grain prices because of our country's limited financial resources and the people's limited ability to withstand high prices. So, the price motivation for the peasants is weak. Besides, as the means of production are in short supply and expensive, the peasants grow grain mainly to fulfill their patriotic duty. To increase grain production requires additional inputs, new technology, and new arrangements. This is one of the major problems which we must solve in the course of reform.

Will widened differences in family income cause polarization? Will private enterprises overtake the leading role of public ownership? Such worries are understandable. When people become accustomed to egalitarianism and a life of eating from the same big pot, they usually mistake egalitarianism for the superiority of socialism. They simply don't know that competition is unavoidable and it is impossible for all to walk at the same pace in the development of commodity production. It is inevitable that some regions, enterprises, and individuals will become prosperous sooner than others in the course of competition. Then, those who become prosperous first will help others to become prosperous, and a common prosperity will finally be achieved. Today, the southern Jiangsu region is comparatively richer. As a result of those who become prosperous first helping others to achieve prosperity in the course of developing commodity economy, there are not many "10,000-yuan households" and very few poor households in that region. Private enterprises meet the objective needs of the development of the productive forces at present, and they account for only 1 percent of our enterprises. It is unlikely that they will affect the leading role of public ownership as cooperative economic organizations control land, basic means of production, and 80 percent of fixed assets in rural areas. Moreover, the state, through the use of taxation, industrial and commercial administration, and other regulatory means, is helping private enterprises retain strength, overcome shortcomings, and guiding them to play the role of a supplement to the socialist economy.

Now that a larger-scale agricultural undertaking is advocated, why was the system of contracted household responsibility introduced then? When we look at a problem, we must not disregard historical conditions. In those years, the people's commune system had three major and common shortcomings--errors in work, giving arbitrary directions in production, and eating from the same big pot in distribution. Of course, a very few of them were well-managed and without these common shortcomings. In most localities, malpractices were conspicuous and peasants showed up for work only to earn workpoints and not to work hard. Since the implementation of the system of contracted household responsibility, the peasants have had the power of decision in production and operation; their income has been closely linked with their work, and their output has doubled and redoubled. Jiangsu's annual grain output has increased to more than 33 million metric tons from a previous annual average of some 20 million metric tons. Surplus labor and spare time have been put to good use. More than 10 million working people have shifted to non-farming work. The average peasant's annual income increased to 538 yuan in 1986 from the previous income of a little over 100 yuan. Is

such a development inappropriate? Some land is too divided to suit our present development of production. In order to form the best combination of land productivity with labor productivity and let farming experts do farming, large-scale agricultural undertakings have been started in some localities where the material foundation is good, a larger portion of work force has shifted to non-farming work, and the people want to have the larger undertakings. This practice is a result of the reform of the last few years. The large-scale farming does not negate household farming. It is an enlargement of some farming experts' household farming, designed to make the rest of the labor force work at ease in the secondary and tertiary industries. To popularize the new practice still requires some time, as most localities still do not have the necessary conditions. A feasible way at present is to improve the rural service system, improve dual operation under both unified management and separate management, and thereby yield the benefits of association.

The fundamental reason for various doubts about rural reform is a lack of clear understanding of conditions in our country. From the viewpoint of social development, the basic condition of our country is that we are still at the initial stage of socialism. This is a very important scientific conclusion drawn by the party Central Committee. Because of this, we cannot expect to have an "absolutely pure" economic structure. Instead, we should successfully adopt and utilize a variety of transitional and interim links and forms and do our utmost to quickly develop social productive forces. This is our fundamental task in building socialism. The "Manifesto of the Communist Party" refers to this when it points out the need to "increase the total productive forces as rapidly as possible." Comrade Deng Xiaoping has stressed on many occasions: "China's reforms in various areas are aimed at sweeping away obstacles to the development of productive forces." The prominent creation and contribution made by the 3d Plenary Session of the 11th CPC Central Committee lies in that it instituted reforms, including opening to the outside world and invigorating the economy, while following the four cardinal principles. These two fundamental points are closely interdependent, and none can do without the other. In the sense of liberation of productive forces, reform is also a revolution. "Reform is China's second revolution." Success of rural reform will spur on the progress of urban reform. The mighty current of urban and rural reforms will be irresistible and irreversible. What we should do is to push ahead rural reform with firm confidence and according to the established plan. Emancipating the mind, stabilizing the policy, and deepening the reform are certainly the important aspects of our rural work at present.

/8309

CS0: 4006/801

PROGRESS REPORTED IN CHECKING SOIL EROSION

HK300446 Beijing CHINA DAILY in English 30 Jun 87 p 1

[Article by staff reporter Chen Guanfeng]

[Text] China has made remarkable progress in controlling soil erosion of the Loess Plateau, CHINA DAILY was told yesterday.

The inflow of silt into the Yellow River, the second biggest in China, has been reduced from more than 1.7 billion tons a year in the 1960's to about 1.1 billion tons a year at present, according to Liu Wanquan, chief engineer of the Administration Bureau of the middle reaches of the Yellow River.

The Loess Plateau covers 640,000 square kilometres in Northwest China, of which 430,000 are subject to soil erosion.

Composed of loose soil, the plateau sends a large amount of silt into the Yellow River whenever it rains, causing more than 1,000 kilometres of the lower reaches of the river to overflow.

To prevent floods, the government has spent about 5 billion yuan since 1949 to build dikes along the river, Liu said.

The engineer said the government had paid great attention to controlling soil erosion since 1955, when the National People's Congress decided to include the plateau's erosion control in the country's economic development plan. The congress set up a special committee to coordinate water and soil conservation efforts in Qinghai, Gansu, Ningxia, Shaanxi, Shanxi, and Henan provinces and the Inner Mongolia Autonomous Region.

Since then, Liu said, efforts have been made to stabilize sand and silt, build terraced fields, plant trees, and bring an overall ecological balance to the plateau.

These efforts have been successful so far, bringing the soil erosion of about 100,000 square kilometres under complete control, he said.

But Liu noted that some new problems had arisen, including increasing human damage to the plateau's vegetation.

"Such damage threatens to make the soil erosion worse," he warned, adding that unless a water and soil conservation law was formulated, there would be no effective way to stop it.

Meanwhile, Chinese and Canadian scientists have set up a laboratory in Deqing County, Guangdong Province, to study soil erosion and ways to tackle it.

Deqing County has lots of granite and used to suffer from bad soil erosion. But after years of planting trees, the erosion has been controlled.

/9599

CSO: 4020/234

NORTHERN PLAIN NOW YIELDS VARIOUS CROPS

OW070624 Beijing XINHUA in English 0612 GMT 7 Jul 87

[Text] Beijing, July 7 (XINHUA)--The eight-year rural economic reform has helped turn the northern China plain, which used to be a backward region dependent on state subsidies, into a granary.

A government official said peasants here now sell 10 billion kg of commercial grain to the state a year. The output of cotton accounts for more than half of the country's total, and those of peanuts, sesame and fruit, more than 40 percent.

The plain stretches from the Haihe River Valley in the north down to the Huaihe River Valley in the south. It covers parts of Hebei, Henan, Anhui, Jiangsu and Shandong provinces.

Years of natural disasters up until 1980 ruined the plain's 18 million hectares of farmland despite the government's efforts to build massive irrigation systems and promote scientific farming.

The rural economic reform which has been promoted across the country since 1980 has greatly stimulated the enthusiasm of the peasants, who have put their backs into work on contracted farmland.

As an example, a peasant in Heze Prefecture, Shandong Province, carried 1,600 buckets of water to irrigate his 0.07 hectares of cotton in 1981 when the prefecture suffered a drought to ensure the growth of cotton.

Apart from continuously putting into the fields organic fertilizer, peasants in this prefecture increased the amount of chemical fertilizer from 268.5 kg per hectare in 1979 to 510 kg per hectare at present. Many peasants have practised diversified economy on their contracted farmland in line with local conditions to increase cash income.

According to the official, the contract production responsibility system has enabled peasants in Minquan County, Henan Province, who had been subsidized by the state financially up until 1978, to expand vineyards and apple orchards, and plant tung oil trees. The county reached self-sufficiency in grain in 1982 and sold 274 million kg of grain to the state that year. Income of its peasants went up from 47 yuan in 1978 to 336 yuan at present.

As a result of the rural economic reform, the official indicated, average peasant income on the plain increased from an annual 100 yuan eight years ago to about 400 yuan a year at present.

The total grain output in northern Jiangsu Province occupies two-thirds of the province's total. The northwest part of Shandong Province transferred 540 million kg of surplus grain to other parts of the country last year. Notorious for natural disasters and poor land, the Heilongjiang Valley in Hebei Province now sells 750 million kg of grain and 450 million kg of cotton to the state a year.

/8309

CSO: 4020/237

BALANCING GRAIN PRODUCTION, ECONOMIC DIVERSIFICATION

Beijing JINGJI RIBAO in Chinese 14 Mar 87 p 2

[Article by Yin Chengji [1438 2052 1015] and Jiang Ruibin [1203 3843 2430]:
"Grain Production and Economic Diversification"]

[Text] After having completed the first step in rural reform during the past several years, the second step in reform has begun, namely the phase of readjustment of the structure of rural industry. The first thing encountered in readjustment of the structure of agriculture was how to handle the correlation between grain production and economic diversification. Because of the lack of scientific understanding and an accurate perception of this correlation, a situation occurred in actual practice of grain production and economic diversification getting in each other's way that created somewhat of a hiatus in agriculture. We must watch this matter very closely.

Mutual Conflicts; Mutual Advances

Grain production and economic diversification are two distinctions made in the agricultural production sector. However, inasmuch as agricultural production is an indivisible whole, objectively speaking, grain production and economic diversification are closely related; thus a dialectical unity exists between them. On the one hand, grain production is the foundation for agriculture and for the entire national economy, while the development of economic diversification is limited by the extent to which grain production is developed and its requirements for funds, labor, skills, and cultivated land. On the other hand, objectively speaking, a mutually restrictive yet mutually advancing relationship exists between grain production and economic diversification. Not only can the development of economic diversification enhance the real strength of the agricultural foundation, thereby supporting development of grain production, but diversified farming and aquatic breeding industries are themselves necessary conditions for increased grain production. In short, for both grain and economic diversification, the level of production of one influences the scale and speed of development of the other.

In grain production and economic diversification, one holds a primary and the other a secondary position and their development is mutually restrictive. In some ways the two conflict with each other; in other ways, they advance each

other. The crux of the issue is whether we can dynamically handle the relationship between the two, and whether we can avoid the harm caused by mutual conflict between the two and benefit from the ways in which they advance each other.

Three Pairs of Simultaneously Existing Conflicts

In the formulation of any correct guiding principle or policy, the general principles to be followed are a product of a combination of specific circumstances in the country and in the area. We must understand, first of all, the present state of agricultural production in China. China's agriculture today has the following three obvious characteristics:

1. Coexistence of Low Grain Production and High Demand For Consumption: The low level of grain production is manifested primarily in the following ways: One is low yields per unit of area. Wheat and corn yields in China are only half those of agriculturally developed countries; paddy rice yields are only approximately 300 kg, which is lower than Japan's 427.5 kg (1978 figures). Second is a low labor productivity rate. In the United States, one farm worker can support 55 people; in West Germany it is 47 people, and even in India it is 4 people; but in China, one farm worker can support only 3 people. At the same time the amount of grain required for consumption is increasing steadily. The country needs more than 250 billion kg of grain each year for subsistence alone, and population is increasing at a net rate of more than 10 million annually, requiring a corresponding increase of more than 2.5 billion kg as a grain ration. The rapid development of industry and of animal husbandry has increased demand for grain. Though China currently has a gross output of approximately 400 billion kgs of grain, thanks to the increase in consumption, the country is not grain rich.

2. Coexistence of Diversification in the Structure of Resources and Lack of Diversification in the Structure of Agricultural Production: China has a vast territory in which climate and terrain resources and species resources are extremely abundant, providing rich resources and a fine environment for the development of economic diversification. By contrast, the structure of China's agricultural production is lacking in diversification and is not in keeping with the structure of resources.

3. Coexistence of a Small Amount of Natural Resources Per Capita and Abundant Manpower Resources: China's agricultural resources are very great in absolute terms, but very little in relative terms. For example, China's land area is only 15 mu per capita while the world average is 49.5 mu. On the other hand, the country has extremely abundant farm labor resources totaling more than 300 million, or more than three-fourths of the country's total labor force of which more than 100 million is surplus labor. It is predicted that by the end of this century, the rural labor force will increase to at least 400 million.

The first of the aforementioned three features demonstrates the urgent nature of China's grain production. The second feature shows the concomitant imperative for development of economic diversification. The third feature shows the shortcoming in China's agriculture to be scant resources, but that the plentiful labor force is a strength in the country's agriculture.

Development of Grain Production Primarily Through Intensive Farming;
Development of Economic Diversification Primarily Through Labor Intensity

On the basis of the principle of a correlation between grain production and economic diversification and in view of the characteristics of China's agricultural production, we must carry out a production program of "positively no slackening of grain production while actively developing economic diversification," and follow a course of developing grain production primarily through intensive farming and economic diversification primarily through intensive labor.

Development of grain production primarily through intensive farming means the use of intensive farming methods, including such scientific measures as soil improvement, increase in investment, improvement of the farming system, application of biological engineering, increased breeding of fine varieties, plant protection, and fertilization, as well as further perfection of rural economic responsibility systems, and good operation of commodity grain farms and family farms that provide economies of scale. It means striving to increase grain yields per unit of area, producing more grain on a limited amount of land. This is determined by the characteristics of China's agricultural production, and it is the basic course for development of the country's grain production. Development of grain production through intensive farming can not only avoid the mindless land reclamation of the past that destroyed forest and grassland resources, thereby maintaining the equilibrium and stability of the agricultural ecology, but it can also help the whole agricultural production system enter a benign cycle of sustained steady development. Even though the intensity of agriculture rose markedly during the Sixth 5-Year Plan, no qualitative changes occurred. In some areas, notably in some economically developed areas and in industrially developed towns and township in the suburbs of large and medium-size cities, nonintensive farming and even abandonment of the land occurred. Consequently, advocacy of intensive farming to develop agricultural production is not only an issue to which serious attention should be given at the present time, but is also the course that must be maintained for a long time to come. Solution to China's grain problem requires that the following policies be adopted now:

1. Intensive Farming in an Effort To Increase Grain Yields: China's potential for increasing grain production is very great. High-yield fields account for only approximately one-fifth of the country's 1.7 billion mu of cultivated land while low-yield fields account for a very large percentage of the total. Calculations show that realization of the Seventh 5-Year Plan gross output goals for grain will necessitate an increase in average grain yields to between 40 and 50 kg for the country as a whole, an annual increase of between 10 and 12.5 jin. This is a rather daunting task. Future emphasis must be placed on intermediate- and low-yield fields and the adoption of intensive farming methods in an effort to raise grain yields.

2. Control of Irrational Takeovers of Land and Stabilization of the Grainfield Area: In addition to the strict control over the use of land for nonagricultural purposes provided by the newly enacted "Land Control Law," the key lies in good apportionment of land use between the farming industry and

the aquatic products breeding industry, particularly the apportionment between the growing of grain crops and cash crops within the farming industry, economic and administrative methods being adopted for rational planning. In a situation of insufficient land resources in China that makes substantial increases in grain yields impossible within a short period of time, stabilization of the grainfield area is extremely necessary.

3. Conservation of Grain and Control of Irrational Consumption: As grain production increases, grain consumption increases correspondingly, the speed of increase in consumption greatly outstripping the degree of increase in production and putting very great pressure on grain production. This situation must be brought under control. Not only does irrational consumption have to be curtailed, but the important commodity that grain is must be managed and used well.

Development of economic diversification primarily through labor intensivity means taking advantage of China's abundant rural labor force resources through development of projects that soak up large amounts of labor but require little capital and resources, and opening new avenues of production through rational development of resources and institution of labor accumulations. Increase in the intensivity of agriculture will inevitably occasion a large surplus in the rural labor force. This surplus labor force has to be transferred off the cultivated land. The primary way to solve this problem in China is through the development within agriculture of labor-intensive economic diversification. Thus, it is necessary, first of all, to continue to readjust the irrational structure of rural industry and to do a good job of resources and economic planning within regions so that the structure of rural industry will better correspond to the structure of local resources. Second, development of economic diversification cannot be done on the cultivated land alone; it is necessary to look to the large tracts of undeveloped mountain, forest, water, and grassland resources of the country. At the present time, less than two-thirds of the country's forest area and inland waterways capable of rearing fish are in use. The utilization rate is only approximately 20 percent for seacoast water surfaces capable of rearing aquatic products. The utilization rate and the production rate for grasslands are both very low. In south China, more than 1 billion mu of grassy mountains and grassy slopes are not rationally used at all. Third, new avenues of production have to be opened through rational development of resources. Particular attention has to be given to linking traditional local crafts and resources for active development of processing industries with unique characteristics. If we just put a lot of emphasis on "multiple" and on "operations," there will be broad avenues for diversification.

In summary, simultaneous with attention to grain production must be the adoption of vigorous actions to boost diversification as the only way in which China's agriculture can sustain steady development.

9432

CSO:4006/522

MOST FARM MACHINERY NOW PRIVATELY OWNED

OW111709 Beijing XINHUA in English 1408 GMT 11 Jul 87

[Text] Beijing, July 11 (XINHUA)--By the end of June this year, 88 percent of all China's 5.41 million tractors, will be owned by farmers, according to the latest statistics released by the Ministry of Agriculture, Animal Husbandry and Fisheries.

Meanwhile, the fixed assets of farm machinery owned by farmers take up two-thirds of the country's total fixed assets of agricultural machinery.

The state and collective used to manage agricultural machinery. Now, individuals also can manage them, marking a new stage of development of China's farm machinery industry, according to analysts.

This development is attributed to the successful urban and rural economic reforms, and the new concept of planned commodity economy, they noted.

In the past, agricultural machinery was assigned by the state and the funds to buy them depended on the state and collectives under the planned economic system. So, all agricultural machinery belonged to the state and the collective.

Since the introduction of the contract responsibility system on a household basis in 1978, the farmers have gained the right to managerial autonomy. They can arrange production freely on condition that they produce the amount of grain set by the state.

Now one-third of the labor force in the countryside has switched to non-farm activities such as rural industry, draught animal raising, transportation and commerce, thus enabling farmers to engage in concentrated management of the scattered farmland. This change has resulted in a growing demand by farmers for farm machinery.

For example, the number of tractors owned by farmers jumped to 4,716,000 in 1987 from 38,000 in 1980. Agricultural vehicles soared to 318,000 from less than 1,000.

While encouraging farmers to engage in the production of farming machinery, the government offers technological training and oil supply and maintenance services of various kinds.

According to the Ministry of Agriculture, Animal Husbandry and Fisheries, 146,000 management and service organizations connected with farm machinery have been set up at different levels in the country.

Official statistics show that in the past three years, China's production of agricultural machinery increased at an annual rate of 25 percent.

/8309

CSO: 4020/237

HIGHER PRODUCTION IN AGRICULTURE, ANIMAL PRODUCTS

OW121748 Beijing XINHUA in English 1448 GMT 12 Jul 87

[Text] Beijing, July 12 (XINHUA)--China is implementing a plan for good harvests in agriculture, animal husbandry and fisheries.

The plan covers 125 items including rice, wheat, cotton, fruits, vegetables, chicken, milk cows and fish, XINHUA learned from an official of the Ministry of Agriculture, Animal Husbandry and Fisheries today.

If the plan is implemented, this year will witness an increase of 1.6 million tons of grain, 35,000 tons of cotton, 1,500 tons of rubber and 2.2 million liters of milk, the official said, adding the areas farmed with advanced techniques will reach 2.6 million hectares, and the number of fine breed animals will reach some 11 million.

The official noted that the provinces, municipalities and autonomous regions designated to carry out the plan have signed contracts with the ministry.

The local governments and the ministry will all allocate special funds for the plan.

/8309

CSO: 4020/237

RURAL PRODUCTIVE ASSETS DOUBLE IN PAST 8 YEARS

OW061144 Beijing XINHUA in English 1051 GMT 6 Jul 87

[Text] Beijing, July 6 (XINHUA)--China's rural productive assets, which include workshops, buildings, forests, animal husbandry and fisheries, have doubled in the past 8 years, the FINANCIAL TIMES has reported.

By the end of 1986, the value of productive assets jumped to 239 billion yuan, up 154.2 billion yuan over 1978.

But the most rapid increases had been found in rural township and village enterprises, whose assets hit 94.67 billion yuan at the end of 1986, four times that of 1978.

At the same time, productive assets owned by peasant families hit 119 billion yuan, up 39.53 billion yuan over 1983.

Also, there was an improvement in investment turnovers, the paper said, adding that the average rural labourer created a 1,988 yuan in 1986 in terms of gross social product, 1.5 times the 1978 figure.

However, investment now tends to be spent on non-productive assets. Last year, there was a decrease in investment in machinery for agriculture, forestry, animal husbandry and fisheries.

The paper urged officials to direct peasants to invest in productive assets in a bid to improve farming conditions.

/8309

CSO: 4020/237

JINGJI RIBAO EXAMINES WENZHOU'S HOUSEHOLD ECONOMY

HK061535 Beijing JINGJI RIBAO in Chinese 18 Jun 87 p 2

[Article by Li Yunhe [2621 0061 3109] of the Agricultural Research Office under the Zhejiang Provincial CPC Committee: "What Is the Nature of Wenzhou's 'Household Economy'"]

[Excerpts] Over the past few years, the peasants have become aware of the benefits of the magic method of household production management. However, there is an unavoidable question: What is the nature of the "household economy" (mainly the economic sector with individually-run undertakings) established by the peasants on the basis of the "household contracted responsibility" system and through relying on "household production management?" People do not hold identical views on this question. The point at issue regarding Wenzhou is the question of "class status." During the "leftist" years, there was this unwritten formula: "Household economy equals individual economy equals private sector of the economy equals nonsocialist economy equals capitalist economy." Although we no longer hear many people publicly expressing appreciation for this formula, we can still see quite a few people pondering over the Wenzhou issue according to that kind of reasoning. Some people are actually very adverse to the Wenzhou mode, thinking that Wenzhou's is a "mode of individual farming and working by oneself," a "private ownership mode," as well as a "mode of making up missed lessons" (making up missed lessons in capitalism). Even some people who favor the Wenzhou experience are saying: "Since the idea of one country, two systems can be promoted, there is nothing fearful about the promotion of capitalism in Wenzhou, a small place." In short, the "class status" of Wenzhou's commodity economy is not good.

According to another kind of viewpoint, although the "class status" of Wenzhou's commodity economy "is not good," its performance is very good." This viewpoint maintains that the "theory of the unique importance of class origin" must not be promoted in the economic field, and that the "stress" should be "put on performance." Moving from the stage of promoting the "theory of the unique importance of class origin" to the stage of doing away with the "theory of the unique importance of class origin" is a very great improvement. This is because promoters of the "theory of the unique importance of class origin" ignore economic results, lose sight of contributions to the state, always speak plausibly and at length about the so-called bad "class status" of others, and invariably equate "class status" with "orientation."

Following the promotion of the rural economic structural reform, the peasants have developed commodity economy on the basis of public landownership. Moreover, able persons have come forward to ally with the peasants in developing nonagricultural industries on the basis of household production management. This development should be described as the growing point of our rural socialist cooperative economy. Why is it that this is just determined as having a "private" nature?

Wenzhou's household economy (mainly the economic sector with individual undertakings run on a larger scale), which was established on the basis of the household contracted responsibility system, is the necessary supplement to our socialist economy, the micro foundations of our socialist commodity economy, as well as the basic level of our cooperative economy. Overall, despite the fact that it still has the nature of the private sector of the economy, Wenzhou's household economy has both "socialist" and "cooperative" natures, does not have the "capitalist" and "private" natures, and its management scale and operational form are similar to both the collective economy and the economic sector under ownership by the whole people. In addition, contributions made by the household economy are not inferior to contributions made by the collective economy and the economic sector under ownership by the whole people.

/8309

CSO: 4006/801

NONGMIN RIBAO DIALOGUE ON GET-RICH-FIRST POLICY

HK050732 Beijing NONGMIN RIBAO in Chinese 22 Jun 87 p 1

[Feature article: "Has the Policy of Allowing Some People to Get Rich Ahead of Others Changed?--A Dialogue With Well-off Peasants"]

[Text] Editor's note: Since the beginning of this year, many well-off peasants have written to the NONGMIN RIBAO editorial department to find out about whether the policy of allowing some people to get rich ahead of others has changed. Viewing the questions in the letters, we found that these well-off peasants lack true understanding of the spirit of the party policy. Any slight change in the weather will give rise to their unnecessary doubts and anxieties. This also reminds us, we should not take it for granted that regarding such very sensitive rural policies as allowing some people to get rich ahead of others, the masses will have no trouble in grasping them when they have been dealt with on several occasions. Even when they have grasped them for a while, they will fail to understand them when new conditions arise. We should repeatedly publicize them with some definite purposes by linking them with the new conditions. This dialogue can be counted as an attempt to do this. [end editor's note]

Question: Is the policy of allowing some people to get rich ahead of others contradictory to adherence to the four cardinal principles?

Answer: No. The implementation of the policy of allowing some people to get rich ahead of others encourages the majority of people to work hard and to make progress; this will precisely push forward the development of social productive forces vigorously, and is this favorable to reinforcing the socialist material base as well to adherence to the four cardinal principles. On the contrary, if the policy in question were not implemented, and an egalitarian approach were adopted to check progress, it would inevitably lead to the consequence of common poverty, and people would fail to see the strong points of socialism. Under such circumstances, adherence to the four cardinal principles would be impossible, and would not be successful even if people tried to do so.

The reason why some people have set the policy of allowing some people to get rich ahead of others against the adherence to the four cardinal principles lies chiefly in the failure to understand the relation between "getting rich ahead of others" and "common prosperity." In fact, only by "allowing some

people to get rich ahead of others" will it be possible for their example to emanate dynamic attraction and inspiration to the majority, and to bring more and more people along the way to prosperity one way or another. Therefore, "some people getting rich ahead of others" is not contradictory to "common prosperity," but the inevitable road leading to it for the whole society.

Question: Why was the policy of allowing some people to get rich ahead of others not mentioned in the 1987 document on guiding the rural reform to develop in depth?

Answer: The policy of allowing some people to get rich ahead of others has already been recorded in the "Decision of the CPC Central Committee on the Economic Structural Reform" adopted by the 3d Plenary Session of the 12th CPC Central Committee as well as several Central Documents No 1 in succession; therefore, it is unnecessary to reaffirm this policy in every document issued.

If we earnestly read the document on guiding the rural reform to develop in depth, we will find that superficially, the policy of allowing some people to get rich ahead of others is not touched upon, but the spirit of the policy in question runs through a series of its provisions. For example, the stipulation on stabilizing the system of contract-responsibility on the household basis, the stipulation on paying attention to protecting the initiatives of individual operation and household operation, and the stipulation on implementing the principle of long-term stabilization of all categories of specialized households and private operators in the rural areas, and the stipulation on protecting their proper operation and legitimate rights and interests--all are preconditioned by the policy of allowing some people to get rich ahead of others; otherwise, there would be no point in talking about stability and protection.

Question: If the implementation of the policy of allowing some people to get rich ahead of others is to be continued, why should control be strengthened over private enterprises in the rural areas?

Answer: The implementation of the policy of allowing some people to get rich ahead of others is not contradictory to strengthening control. The state will do the same to state-run and collective enterprises, so why should control be exempted from private enterprises in the rural areas? We should not assume that the policy of allowing some people to get rich ahead of others is changed at the mention of strengthening control.

Generally speaking, private enterprises in the rural areas are a form of supplement to the socialist economic structure, and are favorable to realizing the combination of capital, technology, and labor force to form into social productive forces as quickly as possible, providing more job opportunities in various areas, and promoting the growth of qualified people in management. However, private enterprises also have contradictions with public ownership economy, and they themselves have some malpractices. Strengthening control to promote what is beneficial and to abolish what is harmful is precisely necessary to the healthy development of private enterprises in the rural areas. Besides, control also implies providing social services, so there is no need to be afraid of it.

Question: Why are communists encouraged to take the lead in initiating collective enterprises and to lead the masses to take the road of common prosperity?

Answer: To take the lead in initiating collective enterprises and to lead the masses to take the road of common prosperity is the requirement for communists but not for the body of peasants; this is entirely correct and necessary. This is because, communists are vanguard fighters with consciousness in communism, and serving the people heart and soul is the obligation of every communist.

Question: Our cadres here often called on specialized households, showing great concern for them and helping them solve problems and difficulties 2 years ago; why do our cadres now often call on poverty-stricken households, not daring to have anything to do with specialized households?

Answer: Cadres should show concern for both poverty-stricken households and specialized households. However, showing concern for them does not mean the leadership should devote their energy on a 50 to 50 basis to each of the two categories. Cadres' work focus may differ regarding different places and different periods. Sometimes, they may exert more effort to grasp work concerning specialized households; at other times, to grasp work concerning poverty-stricken households. This is just normal. However, in some localities at present, specialized households have met with difficulties in their production, and their proper rights and interests have been violated; regarding those problems, cadres have failed to provide solutions to them when they can, or failed to protect the rights and interests of specialized households when they should; such issues should be promptly resolved.

Question: Why has the propaganda on specialized households in the press been reduced significantly of late?

Answer: The contents of propaganda in the press are determined by actual needs. For example, sometimes there is a need for more propaganda on diversified management, sometimes on grain production; sometimes there is a need for more propaganda on specialized households, at other times, on supporting poverty-stricken households. We cannot regard the frequency of propaganda in the press as a change in policy. Since the beginning of 1987, our coverage on specialized households has indeed been reduced; we shall improve our work in this area from now on.

Question: There is much criticism against us well-off peasants in society, saying that we all fall into the category of "indecent people," and "those engaged in speculation and profiteering"; how should we deal with such criticism?

Answer: Such criticism in society does not conform to the objective realities. In our hands, we have many investigation reports, which prove that the overwhelming majority of well-off peasants became rich through hard work, and are law-abiding at that; as to those who have serious problems of various descriptions or who have violated the law in their operation, less than one or two

percent fall into this category. The reasons accounting for the criticism from the society are generally as follows: repeating what people say without knowing the actual conditions; showing a dislike for peasants taking up commercial activities, long distance transport for peddling in particular; suffering from "red eye disease," being jealous of others becoming rich; and people's complaints brought about by the law-violating behavior and immoral behavior of a very small handful of peasants.

Well-off peasants should adhere to the virtue of being hard working and law abiding, and refrain from reaping windfalls. A specialized household should be simultaneously a civilized one, it should pay attention to spiritual civilization as well as material civilization. In sum, so long as one is upright in one's behavior, one need not worry about criticism from society.

/8309

CSO: 4006/801

MECHANIZATION GENERATES MANAGEMENT PROBLEMS IN TANK DIVISION

Beijing JIEFANGJUN BAO in Chinese 7 Mar 87 p 2

[Article by Zhou Xinjiang [6650 2450 3984]: "The Principal Officers Getting a Grip on Things, and Getting a Grip on the Principal Officers:"]

[Text] A certain tank division is a unit that is dispersed, has complex specialities, and is highly mechanized. Undoubtedly, this poses many new problems for management.

However, those who have been to this unit, officers and men alike, invariably praise it for observing strict discipline and being in good order. Indeed, for 2 years in succession it has been assessed by the military region as an advanced unit in administration and management.

What is its secret?

"My understanding can be summed up in one sentence with two levels of meaning: the principal officers get a grip on things, and we get a grip on the principal officers," Division Commander Zhang [1728] said, coming straight to the point.

"In the past, it was precisely in this respect that our understanding was in error, causing work to be passive. We always thought administration and management were trivial matters, and in the division of work they were assigned to deputies. The principal officers did not need to take part. As a result the units' management was slack and mishaps occurred constantly. In other work, there were also many careless mistakes. We never dreamt that this kind of understanding was unscientific. Just think, the units' work forms one big system, and what one aspect of it can be separated from decision making and management? In the course of practice, management permeates the whole process of every bit of work; especially in building the armed forces in the period of peace, this point is more prominent. But in their understanding people are not very aware of it. For example, when assigning work, the link of management is frequently ignored. But once a problem occurs, there is a rush to find the reason in management. Why is this? This is because the importance of management for our work really exists objectively. After we understood this point, big improvements appeared in our work."

From this time on, the division's leaders, particularly the principal military and political officers, began to jump out of the ring of "principled

leadership." They conscientiously studied modern management, displayed the wisdom of the collective, and applied the principle of total effect to the practice of management. After widespread investigations and repeated consultations, the leaders, focusing on the units' reality, decided to take the new path, with implementation of rules and regulations as the main content, of boldly blazing trails in management measures, and in key work making administration and management give prominence to the comprehensive control by cadres.

Under Division Commander Zhang's effort and initiative, all units in the division launched on a wide scale competitive activities of "cadres leading troops by regulations, and fighters being soldiers in accordance with regulations." They upheld operating rules and regulations, and set up control posts and pickets. In the entire division there was formed a good atmosphere in which the organizations set a good example for the units, the cadres set a good example for the fighters, and the fighters supervised each other.

Wehn talking about the question of "getting a grip on the principal officers," Division Commander Zhang said with understanding: "When the principal officers understand the importance of management, it is logical to get a grip on them. With one level getting a grip on another level, things are done well."

It was precisely under the guidance of this ideological method that the division paid much attention to organizing, at every level of principal leadership, the study of modern management, the summing up of experiences in managing units, and the analyzing of the problems existing in one's own unit in a given period of time. Starting last year, the division has run five concentrated training classes on unit management, training in rotation the principal officers at all levels. Division Commander Zhang regularly makes use of various opportunities to call together the principal officers of the regiments and independent battalions for a collective "consultation of doctors" on problems existing in the units, after which "medicine is given for the ailment."

Now, in all units of the division management by objective is widely practiced. Applying the knowledge they have learned, some principal officers have come up with management methods, which are embryonic forms of scientific management, such as "military discipline restraints," "regulation norms," and "persuasion by one's own example," which have initially attained results.

The night deepened. Division Commander Zhang, who had been busy all day in the units, still was not tired of discussing management. From this I also seemed to appreciate the profound meaning of the "the principal officers getting a grip on things, and getting a grip on the principal officers."

9727

CSO: 4005/603

MILITARY, PUBLIC SECURITY

LOGISTICS AUTOMATION COMPUTER INTEGRATION, COMPATIBILITY

Beijing JIEFANGJUN BAO in Chinese 19 Mar 87 p 1

[Report by reporter Chen Xingeng [7115 2956 5087]: "Macro Control Should Be Enhanced in Microcomputer Application"]

[Text] The state of "confused battle" in microcomputer application must continue no longer. The leaders and comrades of the organizations of the Logistics Department of the Nanjing Military Region Air Force hope to make an appeal to this effect with the aid of this report.

This logistics department is one of the units in the PLA that fairly early applied the microcomputer to command automation. The "military region air force logistics command automated system" that it developed has been given an award, second class, for scientific and technological progress in the PLA. However, during an investigation, this reporter saw that the microcomputers it had bought and installed could not entirely escape the fate of being cupboards for documents and data. How to improve the results of using microcomputers is a rigorous topic facing it and many other units. Deputy Chief of Staff Zhang Kunhua [1728 0981 5478] said humorously: "In developing microcomputers, one cannot advocate "letting a hundred flowers blossom." His meaning was that the microcomputers used by the units do not belong to one series and their software is not of the same language, a fact that will certainly cause big difficulties to future on-line networking. In this respect there will be a loss.

Xu Ziyue [1776 1311 6460], deputy chief of the war services section, said that, according to briefings, in the Soviet and American application of the microcomputer to command automation, at the beginning there was also a "confused battle." The computer types were mixed, and each type had its own software. Later, for on-line networking, they expended a large amount of manpower and financial resources to solve the interface problem. He went on: If we do this we will be bound to take the detour they did, which will adversely affect our rate of advance and at the same time cause an extremely large waste of manpower and financial resources.

This reporter asked: "What are the most pressing things that must be done to enhance macro control?" He suggested--

First, in the future the PLA must select and use a series of microcomputers that can be put in an on-line network. Although at present there is a tendency toward uniformity, we must continue to stress this point, make rules, and avoid letting people do as they please.

Second, we must standardize the development of military software. We must stipulate that the PLA standardize the use of a certain language in its software in order that results of one person's research can be used by many persons. The talented persons who have a standardized software will select the most urgent projects in the PLA to tackle, thereby making the best use of the limited number of talents.

Third, get a unified view of the overall situation. When a problem of any deviationist nature is discovered, timely correct it and strengthen guidance. For example, for a certain grade of unit a computer with a suitable capacity should be used, and there should be rules to that effect, thereby preventing the blind pursuit of high-grade, precision, and advanced products. We must stress that the training and retention of talents who both understand military affairs and can compile high-level software be given priority, and that machines be purchased slowly and in small quantities.

9727

CSO: 4005/603

NATIONAL DEFENSE ECONOMIC RESEARCH GROUP ESTABLISHED

Beijing JIEFANGJUN BAO in Chinese 5 Mar 87 p 1

[Report by reporter Jian Ni [4675 1200]: "China's First National Defense Economic Research Group Established in Beijing"]

[Text] Beijing, 4 March--Today the establishment was announced of a mass academic group with the aim of studying national defense economic theory and problems related to national defense modernization--the Beijing National Defense Economic Research Group.

The noted scientist and chairman of the Science Society, Qian Xuesen [6929 1331 2773], is the initiator of this rising branch of learning. In recent years, a fairly good momentum has appeared in national defense economic research, and a large group of experts and scholars in the armed forces and the localities have initiated many forms of academic interchange activities. They closely coordinate in research on national defense development strategy, integrate their research with relevant questions in reform of the economic system, provide advice on decision making to leadership organizations, and receive and organize forces to complete research topics entrusted to them by relevant departments. They have published a group of theses, collections, and specialized works, for which they have received favorable comments from relevant quarters. National defense economic research is drawing people's interests more and more. According to a briefing, our country is the first country to have an academic group that specially studies national defense economic problems. A spokesman for the research group said that the group will, under the guidance of the spirit of the 3d Plenary Session of the 11th CPC Central Committee, uphold the four cardinal principles, and, in line with the spirit of blazing new trails, seeking truth, being scientific, and being democratic, unite, organize, and coordinate scholars who have the noble aspiration for national defense economic research to launch research activities to serve national defense construction and national economic construction.

More than 100 experts and scholars of the relevant departments of the armed forces and the state took part in today's inaugural meeting.

9727
CSO: 4005/603

FOUR NATIONAL DEFENSE COLLEGES DESCRIBED

2d Artillery Engineering College

Beijing BINGQI ZHISHI in Chinese No 2, 15 May 87 p 19

[Article contributed by Zhang Zhiying [1728 1807 3853]: "Second Artillery Engineering College"]

[Text] The PLA 2d Artillery Engineering College is a higher engineering technical colleges that trains technical command cadres for the 2d Artillery Corps, and is one of the key higher colleges and schools in China.

The college is located in the eastern suburb of the old city of Xian, between the scenic and beautiful Lishan Mountain and Bashui River. It occupies an area of 1,300 mu. The area of the college buildings is more than 175,000 sq m. The college has modernized teaching equipment and row upon row of large buildings, including a teaching multistory building, laboratory multistory building, multistory computer building, training hall, and library.

It has a complete range of recreation and sports facilities including an auditorium, stadium, gym, and swimming pool. On the campus green trees provide shade, and the environment is quiet and tasteful. The college is an advanced unit in making the country green. The college was founded 1 September 1959. Its training system now is mainly regular undergraduate college courses and education for master's degrees for graduate students. The college has three main departments: training, political, and college administration. It now has a projectile department, power machinery department, automatic control department, as well as a teaching and drilling dadi, an attached factory, and a teaching auxiliary unit. There are specialized courses in detonation control, applied nuclear physics, emission machinery engineering, position electromechanical engineering, automated control, data computing, computer engineering, and analytical chemical experiments. In addition, there are specialized courses for graduates in flight dynamics, military technical operations research, emission technology, flight vehicle navigation control system, warheads, computer technology, as well as their application. The college also has a teaching and scientific research backbone contingent with professors, associate professors, senior engineers, and senior laboratory technicians as the academic leaders. This college has now developed into an institution of higher learning that is both a teaching center and a scientific research center, influential both inside

and outside the PLA, and that has a perfected training system and complete set of specialties.

In recent years the college's teaching quality has constantly improved, and its scientific research and academic activities have gradually been enhanced. It has received PLA scientific and technological progress awards for more than 40 scientific research results, some of which have filled gaps in China or attained China's advanced levels, and for which the college has received state scientific and technological progress awards. In addition, from the college has flowed nearly 1,000 academic treatises, some of which have been selected for publication by foreign magazines and have evoked fairly large repercussions.

There are several thousand students now studying in the college. Every year it enrolls students about to graduate from senior middle schools throughout China, and for some specialties enrolls women students. It has a comprehensive examination system for its undergraduate course education, and the teaching quality is fairly high. The content of the students' secondary classroom activities is extensive, touching upon many branches of knowledge such as literature, history, philosophy, law, and the fine arts. The college's music society and various sports societies regularly organize varied and colorful recreational and sports activities, which are quite influential in the Xian area.

Air Force Political College

Beijing BINGQI ZHISHI in Chinese No 2, 15 May 1987 p 19

[Article by Sun Peixian [1327 1014 6343]: "Air Force Political College"]

[Text] The Political College of the CPLAF is a liberal arts-science compatible intermediate command college that trains political command officers, political organization officers, and political theory instructors for Air Force units at the regiment level and below; that trains officers who deal with library information and archival materials and trains graduate students working for master's degrees in armed forces political work and other specialties for the entire PLA. The college is located at the Jiangwan Pentagon in the Yangpu District of Shanghai Municipality. The campus is vast, clean and tidy; the environment is elegant and fine.

The college was founded in 1954. It now has four student dadui and one books and archives department. It offers specialties in unit political work, political theory education, library information, and archival materials. The college has a total of 23 teaching and research sections, as well as many phonetics and computer laboratories and specialized sections. The newly completed, 6,000-sq m plus library has a collection of more than 300,000 books and a series of modernized equipment. The college emphasizes importance to academic research. It has had a large number of its academic and theoretical articles published in influential newspapers and periodicals inside and outside the PLA. Many of its research projects have received academic result awards inside and outside the PLA.

The college has fairly good material support facilities to satisfy the material needs of its teachers and students. Recreational and sports activities are abundant, and the equipment for them is complete.

Students of the college are mainly posted officers from Air Force units. Students in the Library and Archives Department are enrolled from the current year's graduates of senior middle schools. After local students are enrolled, they go through the procedures of joining the PLA. During their time in the college they receive the remuneration of military school students.

Air Force Antiaircraft Artillery College

Beijing BINGQI ZHISHI in Chinese No 2, 15 May 87 p 19

[Article by the Dean's Office of the Air Force Antiaircraft Artillery College: "Air Force Antiaircraft Artillery College"]

[Text] The Air Force Antiaircraft Artillery College of the Chinese People's Liberation Army is situated in Guilin City, which has the finest mountains and waters under heaven. It is a military college that trains primary- and middle-level military command cadres in college undergraduate courses and professional training for the Air Force's antiaircraft artillery and surface-to-air missile units. She was founded in the early fifties, and in the more than 30 years since then she has trained a large number of military command cadres and engineering and technician talents for the PLA. The college now occupies 550,000 sq m, and its buildings take up close to 90,000 sq m. Its teaching facilities are complete, and it has good conditions for study and a good living environment. Every year it enrolls students in the localities who are graduating from senior middle schools. The period of schooling is 4 years. Graduating students will become primary-level commanding officers with an educational level equivalent to that of a graduate of a college of engineering.

Dalian Surface Ship College

Beijing JIANCHUAN ZHISHI in Chinese No 1, 8 Jan 87 pp 2-3

[Article by Di Anbang [3695 1344 6721]: "The Navy's Dalian Surface Ship College Advances Amid Development"]

[Text] In the last stage of the War of Liberation, the People's Navy, which had just been established, urgently needed to train naval cadres and various types of personnel with specialized skills. With the solicitude of Chairman Mao Zedong and other proletarian revolutionaries of the older generation, the Central Military Commission on 22 November 1949 issued the order to establish in Dalian the first regular navy school. Xiao Jinguang [5135 0513 0342] became commandant and concurrent political commissar and Zhang Xuesi [1728 1331 1835] became deputy commandant and concurrent deputy political commissar. After more than 2 months of intense preparations, the school formally opened on 1 February 1950. This was the People's Navy's earliest established higher military school for training primary-level commanding officers of surface ships.

Since its founding, the Dalian Surface Ship College has gone through three historical stages: arduous pioneering work, development and maturation, and modernization. In particular, since the 3d Plenary Session of the 11th CPC Central Committee, there have occurred enormous changes in the college's appearance. It has now been built into one of the bases for training naval primary-level technical and command officers that has abundant teaching forces, advanced teaching equipment, and sound rules and regulations. In 36 years, the college's 10,000 plus graduating students have gone to the motherland's ten thousand li of coastal areas and territorial seas to become the backbone force in the Navy's leadership organizations at all levels, its ship units, its colleges and schools, and its scientific research organizations. Some graduating students have become senior officers in charge at all levels in the Navy or have become experts in the Navy's teaching and scientific research fields.

Students of the Dalian Surface Ship College are enrolled by taking the national college entrance examination and the PLA standard entrance examination. In addition, it enrolls graduate students working for master's degrees, and it has a teachers class and short-term concentrated training and correspondence school classes. The college has 6 departments--navigation, cannons, underwater weapons, missiles, signal and radar, and ocean surveying and mapping; 14 specialities; and now nearly 2,000 students.

To better train and bring up naval talents, the college conscientiously implements the Central Military Commission's "Decision on Reform of Education in Armed Forces Colleges and Schools," by making teaching work the central link in the college's regularization and fairly comprehensively reforming teaching. The college has changed the training system of dividing students into groups, each majoring in a different field of study, to a training system of interchangeable majors, putting stress on laying a good foundation, broadening the range of knowledge, and enhancing adaptability, so as to develop the students' intellect and train qualified talents for the Navy. At the same time, the college has appropriately revised or formulated plans for enhancing education and various rules and specific measures for teaching management, and has added a microcomputer management system, thereby gradually achieving modernization in management measures. In its teaching, the college implements the principle of integrating theory with reality, paying attention to training and tempering the students in practical work skills and in the capability to organize and command. For example, in March 1982, the 97 students in Chief Navigator Class 78 boarded Ship 927 and carried out studies while making a pregraduation voyage to the Xisha Islands. The 65 day roundtrip was 4,552 nautical miles. The students became proficient in navigation skills; gained abundant experience in navigation; improved their ability to work independently; and tempered their capability to resist cold, heat, seasickness, and endure hard work, and their will to conquer difficulties.

In recent years, to strengthen the building and management of the instructor ranks, the college has adopted the method of multichannel and multilevel training of teaching and scientific research leaders, and to accelerate the building of the lateral structure and the vertical structure of the instructor

ranks. In the lateral structure: There has been basically achieved a structure of different levels within the various types of instructors; the age structure is gradually forming an echelon; the knowledge structure is being replenished and replaced; in the specialized structure the backbone elements are complete; and in the quality structure the distinguishing features are distinctive. In 36 years, the college has developed from the 16 instructors and 6 pedagogical groups when it was newly established to the present nearly 600 teaching and research sections. This contingent of instructors has not only completed well all previous arduous teaching tasks, but also has persevered in the direction of making scientific research serve teaching and and serve the Navy's modernization, and in tactical planning, weapon utilization, and in other research, it has obtained marked successes.

In recent years, on average every year 23 percent of the instructors have undertaken various scientific research projects, for 39 of which they have won national scientific and technological progress awards or all-PLA scientific and technological results awards; and have written a little over 360 treatises and academic articles, for a little over 30 of which they have won "excellent treatise" awards from national or provincial-level academic organizations. A total of 68 of their scientific research results have been incorporated into specialized teaching materials, replacing 30 to more than 50 percent of the content of the teaching materials. From 1981 to 1985, they compiled or revised a little over 300 kinds of teaching materials and teaching guidebooks, totalling a little over 250,000 volumes, thereby initially solving the problem of the college's teaching materials meeting the teaching needs for using the modernized equipment of the Navy's warships. By itself the college has successfully developed and put to teaching use 14 pieces of simulation training equipment, all of which have obtained fairly good results in use and economic results, so that the college has taken a solid step toward the modernization and use of simulation in its training. For example, the "Type II surface ship comprehensive simulation trainer" successfully solves the problem of the technique of uniting 23 different types of microcomputers into a network, and can at high speed simulate a free two-sided training exercise of many ships at sea. This result reached China's advanced level and won a first-class award at the all-PLA simulation equipment exhibition. The "navigation simulation trainer" can, under computer control, display the relevant pictures, materials, and data for the celestial position, radio position, radar navigation, ship movement, and various methods of calibration for navigation, providing them for observation and analysis by the students, and by itself determining the processing plan. After the processing is finished, from its computer it automatically gives out the standard answers, and some of these "trainers" can evaluate the scores, thus basically achieving complete navigation training computer simulation. In 36 years, from the 7 simple and crude laboratories when it was newly established, the college has developed to the present 114 laboratories, training rooms, and exhibition rooms and more than 8,000 pieces (sets) of teaching equipment. It has widely adopted education with electrical audio-visual aids, and has constantly developed and replenished a group of teaching equipment of modernized standards so that the teaching quality was correspondingly improved.

In recent years, 56 of the college's scientific research results have been spread to the units for use, making a contribution to the improvement of the

units' training measures. For example, 7 pieces of simulation training equipment, including the "missile operating trainer" and the "sea mine internal tester," after being spread to the units for use, have universally received favorable comment. The "Regulations for Ship Guns Firing at Sea and Into the Air," "Combat Use of Missiles on Guided Missile Destroyers," and other results have filled certain gaps in the combat regulations for the Navy's ships. The research result "Air Defense of Surface Ships" is a teaching model that for the first time in China makes use of systems engineering to study operational questions, and it has been put into the Navy's relevant regulations. The research result "Expanded Square Matrix for Response to Calls for Search for Submarines by Surface Ships" has been spread to submarine chaser units for their use. Because its search results are good, it is simple and easy to do, and it is not easy for the other side to grasp its pattern, the units have welcomed it. In the Navy, 21 articles in the combat regulations for 8 kinds of ships have been revised or supplemented on the basis of this research result.

While conscientiously and thoroughly implementing the "Three Major Regulations" promulgated by the Military Commission, the college has gradually established and perfected a set of rules and regulations that are proper and well-timed, and has strictly enforced the "daily schedule system" so that the students have good organizational discipline and military bearing, forming a united, intense, serious, and lively college spirit. The college has been honored to participate in all previous National Day parade ceremonies in the capital's Tiananmen Square. During the appraisals of formation, it has always been among the best, and has satisfactorily completed its parade task, for which it has been commended by the senior officials of the party Central Committee and its Military Commission as well as the people of the capital, thereby winning honor for the Navy. In 1982, the college was assessed as an advanced unit in managing education in the PLA. From the middle fifties to the present, the college has received visits from delegations of more than 30 countries, and has universally received favorable comments from the foreign guests. In 1985, some instructors and students of the college accompanied our Navy's ship formation that visited Pakistan, Sri Lanka, and Bangladesh, a voyage of 12,430 nautical miles. They were tempered and tested in a long voyage and in strong winds and waves. They broadened their horizons, increased their knowledge, established friendships, and enlarged the PLA's influence.

Since the college's founding, Premier Zhou Enlai and Comrade Deng Yingzhao, Zhu De, Peng Dehuai, Liu Bocheng, He Long, Nie Rongzhen, Marshal Ye Jianying, and senior officials and officers of the Military Commission and the PLA Headquarters have come to the college on inspections.

Under the leadership of the party Central Committee and its Military Commission, the Dalian Surface Ship College is following the direction of the PLA's modernization and, full of confidence, is advancing amid development.

9727

CSO: 4005/591

NORTHWEST REGION

REGIONAL

GANSU RADIO COMMENTS ON REFORM, 'TWO BASIC POINTS'

HK290825 Lanzhou Gansu Provincial Service in Mandarin 2200 GMT 28 Jun 87

[Station "short commentary": "Conscientiously Promote the Study of and Education in the Two Basic Points"]

[Excerpt] The line adopted since the 3d Plenary Session of the 11th CPC Central Committee has two basic points: One is to uphold the four cardinal principles and the other is to persist in the policy on reform, opening up, and invigoration. The two are interrelated and neither can be dispensed with. Without upholding the four cardinal principles, we would lose our bearings in the implementation of our policy on reform, opening up, and invigoration. Without the policy on reform, opening up, and invigoration, it would be impossible for us to successfully uphold the four cardinal principles. Therefore, we can say that the following two viewpoints are wrong: The viewpoint that with the promotion of reform and opening up, there is no need to attach importance to the four cardinal principles: and the viewpoint that with the call for opposing liberalization, there should be restrictions on reform and opening up. The two basic points are both aimed at the same goal: The building of socialism with Chinese characteristics.

/9599

CSO: 4005/825

NORTHWEST REGION

REGIONAL

GANSU GOVERNOR PROMOTES REFORM

HK220425 Lanzhou Gansu Provincial Service in Mandarin 2200 GMT 21 Jun 87

[Excerpts] The Gansu provincial forum on improving city administration of counties and changing counties into cities, which concluded on 21 June, pointed out that the aim of this improvement and change is to meet the needs of urban economic development, accelerate integration of urban and rural areas, and promote the development of social productive forces.

This forum was jointly convened by the political structural reform office of the provincial party committee and the provincial economic structural reform office. Hou Zongbin, deputy secretary of the provincial party committee, presided at the concluding session. Governor Jia Zhijie and Vice Governor Zhang Wule spoke on reform issues.

Jia Zhijie said: In perfecting the system of city administration of counties and changing counties into cities, it is essential to firmly adhere to the two basic points of upholding the four cardinal principles and persevering in reform, opening up, and invigoration. We must continually clear away leftist and rightist interference, and oppose leftism or rightism, as appropriate. At present we should focus on breaking down ossified thinking and opposing interference from the left, boost our confidence in reform, and continually carry out reforms in depth.

/9599

CSO: 4005/825

XINJIANG CONSTRUCTION CORPS LEADER STRESSES REFORMS

HK220317 Urumqi Xinjiang Regional Service in Mandarin 1200 GMT 21 Jun 87

[Excerpts] Guo Gang, political commissar of the Xinjiang Production and Construction Corps, said at a symposium on the achievements of advanced party branches and members which concluded yesterday: Reform is the essential thing for invigorating the corps. The leading comrades at all levels must establish the idea of reform, strengthen their consciousness of reform, step up investigation and study, and ensure that reforms in the corps will advance along the correct orientation.

Guo Gang said: We must currently get a good grasp of the following tasks in order to deepen the reforms:

1. Carry out deep-going, healthy, and sustained education in adhering to the four cardinal principles and opposing bourgeois liberalization.
2. Persevere in reform to develop the social productive forces.
3. Strengthen party building and improve the party's combat strength.
4. Launch an extensive double increase and double economy drive and stimulate economic construction in the corps.

On the question of deepening economic structural reforms in the corps, Guo Gang said: The task of reform in the corps is very heavy. The problem of everybody eating out of the same big state pot has by no means been completely resolved. Reforms have also to be deepened in the financial and enterprise management fields in the corps. Reforms in industry, communications, commerce, and construction units have only just started. The leaders at all levels must establish the idea of reform.

/9599

CSO: 4005/825

HONG KONG, MACAO

ZHOU NAN EXPLAINS DECLARATION ON MACAO ISSUE

OW190448 Beijing XINHUA Domestic Service in Chinese 1208 GMT 18 Jun 87

[Text] Beijing, 18 Jun (XINHUA)--Zhao Ziyang, premier of the State Council, submitted a motion to the current 21st meeting of the 6th NPC Standing Committee, requesting examination, discussion, and approval of the "Joint Declaration of the Government of the People's Republic of China and the Government of the Republic of Portugal on the Question of Macao." At today's plenary session, Vice Foreign Minister Zhou Nan, entrusted by the State Council, gave an explanation of this motion.

Zhou Nan said: On 13 April 1987, Premier of the State Council Zhao Ziyang and Portuguese Prime Minister Cavaco Silva, on behalf of their respective governments, officially signed the "Joint Declaration of the Government of the People's Republic of China and the Government of the Republic of Portugal on the Question of Macao." Prior to this, on 26 March of this year, this joint declaration had been initialed by the heads of the delegations of the two governments. On 2 April, State Councillor and Foreign Minister Wu Xueqian, entrusted by the State Council, made a report on the initialed text of the joint declaration of the Fifth Session of the Sixth NPC, which expressed satisfaction with the work done by our government to solve the Macao question and decided to authorize the NPC Standing Committee to examine and discuss the joint declaration and adopt a decision to approve it after it has been officially signed by the Chinese and Portuguese Governments. Accordingly, Premier of the State Council Zhao Ziyang has requested that the NPC Standing Committee examine and discuss this officially signed "Joint Declaration of the Government of the People's Republic of China and the Government of the Republic of Portugal on the Question of Macao," including the two annexes, and adopt a decision to approve it.

He continued: In view of the fact that Foreign Minister Wu Xueqian's report to the Fifth Session of the Sixth NPC on the initialed text of the joint declaration has been printed and distributed as a document for this Standing Committee meeting and that the officially signed text contains no change of the contents of the initialed text, I will only make the following brief explanation on behalf of the State Council, with emphasis on the reactions from various quarters following the signing of the joint declaration and on the significance of solving the Macao question.

Zhou Nan said: Since the joint declaration was signed, it has been warmly supported by the Chinese people, including our compatriots in Macao, and has won extensive support and praise from the people of Portugal and all other countries. The press and social groups in Macao have all praised the joint declaration as a good agreement, which they believe has laid a solid foundation for Macao's stability and development and increased the confidence in its future. Now, Macao is marked by social stability and has a vigorous economy and greater confidence. This demonstrates that the joint declaration signed by our government is based on Macao's actual situation and accords with the fundamental interests of all Chinese, including the compatriots in Macao.

He pointed out: The signing of the Sino-Portuguese joint declaration and the satisfactory solution of the Macao question are two major events in modern Chinese history, following the settlement of the Hong Kong issue. It signifies another important step that the Chinese people have taken toward the great goal of reunifying the motherland. It is bound to have a positive effect on ending the state of separation between Taiwan and the mainland soon and on the fulfillment of the great cause of reunification of the motherland. At the same time, it has provided another successful model for the peaceful solution of international disputes, in particular the solution to historical, long-standing problems between countries. The satisfactory solution of the Macao question gives testimony to the fact that the scientific concept of "one country, two systems" has an immense vitality and is realistic and feasible. In addition, the signing of the joint declaration has brought bright prospects for furthering the Sino-Portuguese friendly and cooperative relations in various fields.

In conclusion, Zhou Nan said: We believe that all-around implementation of the joint declaration corresponds to the common interests of China and Portugal. Our government will make unremitting efforts in this regard. During Macao's transitional period, the Chinese and Portuguese sides will no doubt, continue to make concerted efforts for the all-around implementation of the joint declaration in the spirit of friendship, cooperation, and mutual understanding.

/9599

CSO: 4005/824

END

10

This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, economic, military, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available source; it should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated. Those from English-language sources are transcribed, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names which are rendered phonetically or transliterated by FBIS/JPRS are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source.

SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in 8 volumes: China, East Europe, Soviet Union, East Asia, Near East & South Asia, Africa (Sub-Sahara), Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications generally contain less time-sensitive information and are published periodically. Current JPRS publications are listed in *Government Reports Announcements* issued semi-monthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcovers or microfiche) at no charge through their sponsoring organizations. DOD consumers are required to submit requests through appropriate

command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.) For additional information or assistance, call FBIS, (703) 527-2368, or write to P.O. Box 2604, Washington, D.C. 20013.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. New subscribers should expect a 30-day delay in receipt of the first issue.

Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.